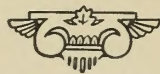






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THESIS

THE GROWTH AND ORGANIZATION OF CREDIT UNIONS IN THE UNITED STATES

by

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## INTRODUCTION

In preparing this thesis I have endeavored to keep in mind two objectives:

- (1) To present a complete treatment of credit union development in the United States.
- (2) To show what the credit union is, how it functions, and what benefits it bestows upon its members.

The accomplishment of the second objective has proved relatively easy. However, in my effort to attain the first objective, it was necessary to trace the movement from its early beginnings in Europe, since the cooperative credit idea originated in the minds of men who lived in the Old World about the middle of the nineteenth century.

There are several outstanding books on the credit union. Roy F. Bergengren's three books on the subject are concerned for the most part with credit union operation and management. The space he devotes to history is confined almost exclusively to the development in this country. D. S. Tucker's book places emphasis upon the work of Schulze - Delitzsch and Luzzatti. Herrick and Ingalls in their book called Rural Credits stress the accomplishments of Raiffeisen and Wollemborg. Finally, M. R. Neifeld's Cooperative Consumer Credit is concerned with a presentation of the status of the various types of credit unions in existence in this country in the year 1936.





The above men have written excellent books on the credit union. Without attempting to belittle their contributions in any fashion, I wish to point out that not one of them presents in his book a complete development of credit unions from their early beginnings in Europe to their present-day status in this country. It is this development which I shall attempt to show in this treatise, along with material on the organization features of the credit union.

It is not my aim to present in this treatise any critical evaluation of the credit union. For the most part, this opus is a new presentation and interpretation of existing data. If, after its perusal, the reader feels that I have attained my two objectives, I shall be most satisfied.





## CHAPTER I

### COOPERATION, COOPERATIVE CREDIT AND THE CREDIT UNION

The cooperative movement which embraced Europe about the middle of the nineteenth century took several forms in the various countries, the main two being consumer cooperation as inaugurated in England and credit cooperation as developed in Germany. Credit cooperation or cooperative credit is the fundamental tool of the credit union. But how can one come to a full understanding of cooperative credit, if a knowledge of the meaning and implications of cooperation is lacking? It is my contention that a full appreciation of cooperative credit can be garnered only after a thorough analysis of the significance of cooperation. Therefore, I shall give some attention to the latter in this treatise, endeavoring to treat it as concisely as possible.

#### Cooperative Movement and Cooperative Credit Compared

Cooperation and cooperative credit have much in common. They both stress the need for mutuality of interest among the members; both utilize the principle of self-help. It is often claimed that Raiffeisen, one of the two men responsible for the rise of cooperative credit in Germany, was deeply influenced by the consumer cooperative movement in England. Whether this contention can be substantiated or not is a matter of conjecture. However, this much is true - there is a striking similarity as regards the aims and organization of both. Since money can be looked upon as a commodity, just like goods and services, a likeness may be shown when we consider that the aim of consumer cooperative societies





is to place goods in the hands of the members at the lowest possible cost, while it is the goal of cooperative credit organizations to afford their members a cheap source of credit.

It may be said that the ultimate objective of the cooperative movement is the creation of a social structure capable of displacing both profit-making industry and the compulsory political state. Striking though it may seem, one of the leaders in the credit union movement has pointed out to me that cooperative credit societies have practically the same objective. He stated that the credit union is expected to be a supplanter of profit-making industry on the one hand and a bulwark against the various isms on the other.

To my mind, the cooperative movement is the all-embracing one. The cooperative credit movement is an off-shoot of that all-inclusive movement. The credit union, which for the most part is a North American institution, finds its source in the European development and uses the principles of cooperative credit in its functioning. It therefore behooves us at this point to discuss briefly some of the most important features of cooperation so that we may come to a full appreciation of cooperative credit and the credit union.

### Cooperation - (Types)

#### Definition

Dr. James P. Warbasse, President of the Cooperative League of the United States of America, defines a cooperative society as "a voluntary association in which the people organize democratically to supply their needs through mutual action, and in which the motive of production and distribution is service, not profit." (1) This definition stresses:

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(1) James P. Warbasse, Cooperative Democracy, p. 7.





- (1) The necessity of the organization's formation by the members themselves.
- (2) A requirement that the founders of the society have a mutual interest.
- (3) The dominating motive of service, not profit.

The two main types of cooperatives are the consumer and the producer ones. Since the credit union is purely a consumer institution, it is appropos to consider in detail in this treatise consumer cooperatives only. My definition of this latter type would embody Dr. Warbasse's definition cited above, and in addition would emphasize the fact that it is a business enterprise engaged in by consumers and for consumers.

#### The Origin of Consumer Cooperatives

Robert Owen and the Christian Socialists:-- These Englishmen contributed much to the idealism of the cooperative movement. They were wealthy men who sponsored legislation favorable to cooperatives. Their number included such men as Charles Kingsley, John Stuart Mill and E. Vansittart Neale.

Robert Owen (1771-1858) contributed more to the cooperative movement than any other socialist of his time. While a partner in a mill in New Lanark, Scotland, he first manifested his interest in social reform. Although his New Lanark mills proved highly successful as a business proposition, his partners objected to the expenses incurred by the undertaking of social betterment projects. As a result, the partnership was dissolved, Owen forming a new partnership with other men.

The new partners agreed to compensate themselves only with a five per cent annual dividend. A partnership of thirteen shares, all over the five per cent for the capital and risk was to be used for the education of the children and the improvement of the lot of the working people of New Lanark.(1)

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(1) D. S. Tucker, The Evolution of People's Banks, p. 13.





Owen was the first great cooperator and the first factory owner to prove that an employer profits by helping his employees. To his mind, cooperation was not to be a means of eliminating the capitalistic employer. Rather, it was a type of utopian socialism.

Dr. William King:-- Most of the men who manifested an active interest in cooperation during the nineteenth century thought in terms of labor rather than consumption.(1) In this respect Dr. King proved to be the chief exception, for he was the first to comprehend consumers' cooperation.

From 1828 to 1830 a little magazine called The Cooperator was published by Dr. King, a physician residing in Brighton, England. This magazine was used by him as a means of expressing his philosophy of cooperation and the methods essential to the success of the movement. Dr. King, who is often regarded as the father of British cooperation, placed particular stress upon the voluntary side of the movement.

The Rochdale Pioneers:-- One December day in 1844, just a few years before the birth of cooperative credit in Germany, the dwellers in Toad Lane in the city of Rochdale, England, witnessed the quiet opening of a modest little store, whose stock of foodstuffs had been purchased with subscriptions of a pound from each of its twenty-eight owners. These twenty-eight men were weavers by trade who, along with their wives and children, worked from 6:00 A.M. to 8:00 P.M. for a niggardly wage of one or tuppence an hour.

The lot of these weavers in the mills at Rochdale was pathetic. After their usefulness as workers was ended, they had the poorhouse as their only salvation. Outlandish exploitation of them by traders caused them to decide to become traders and capitalists. They decided to supplement

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(1) James P. Warbasse, op. cit., p. 30.





their own strenuous toil with that of merchant, banker and millowner. The original capital of 28 pounds was amassed after more than a year's saving. Receiving no outside help, they possessed approximately 14 pounds to purchase a small supply of flour, oatmeal, butter and sugar. The rest is history, as the Rochdale stores today represent a sizeable portion of England's retail trade.

The Rochdale Principles.-- From this first successful attempt at consumer cooperation have evolved certain fundamental principles on which all true consumer cooperatives are based. Although authorities on cooperation seem to disagree as to the original Rochdale principles, they appear to be in conformity as to the following:

- "(1) To sell goods at prevailing local prices.
- (2) Restrictions to a fixed rate of interest upon capital - this interest to have first claim upon the profits.
- (3) The distribution of profits (after meeting expenses and interest charges) in proportion to purchases.
- (4) No credit - all purchases and sales to be paid in cash when the goods are handed over.
- (5) Both sexes to have equality in membership rights.
- (6) Each member to have one vote and no more."(1)

All of the above rules were sound. However, the third one was a master-stroke, as it gave to the members a real incentive to be loyal to their store. The amount of their patronage refunds was thus dependent upon the amount of their purchases.

Although the standardized cooperative movement started with the Rochdale Pioneers in England, they did not originate each of the Rochdale principles. They simply studied several plans in existence around them

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(1) Merlin G. Miller, "The Democratic Theory of Cooperation", The Annals of the American Academy. (May, 1937), p. 32.





and combined the best elements of each for their society. Despite the fact that the society received no outside aid, by the end of 1845 it possessed 74 members and a paid-up capital of 180 pounds. Its first year's volume of business was 710 pounds,  $2\frac{1}{2}$  per cent of the savings being devoted to education.(1)

### The Growth of the Consumer Cooperative Movement

From the humble beginning with the Rochdale Pioneers in England, the cooperative movement has experienced a surprising growth, both in Great Britain and in the United States. In Great Britain in 1936 cooperative societies possessed over 7,000,000 members. At the start of 1935, the retail distributive societies in that nation had 159,000 pounds capital and 200,000 employees whose annual wages totalled 26,000,000 pounds. On the other hand, the English Cooperative Wholesale Society, which was organized in 1863, in 1936 was composed of over 1,000 societies.(2)

Scotland's cooperative societies had over 800,000 families in their membership in 1936. The Scottish Wholesale, which is similar in character to the English Wholesale Society, transacted an annual business of 20,000,000 pounds in that year.(3)

On the continent consumer cooperatives have proved most popular in Sweden, Denmark and Finland. A commission appointed in 1936 by President Roosevelt to study consumer cooperatives on the spot in Europe found that in Sweden cooperatives did an estimated 10 per cent of the total retail trade of that nation. The commission also found that in Denmark approximately

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(1) James P. Warbasse, Cooperative Democracy, pp. 27-28.

(2) Ibid., p. 31.

(3) Ibid., p. 32.





15 per cent of the retail trade was done cooperatively, while Finland's cooperatives accounted for about 25 per cent of the country's retail business.(1)

In the United States the growth of consumer cooperatives was rather slow up to the end of the World War. Since that time growth has been more rapid, but at the present time only a small portion of the business in this country is done cooperatively.(2) More than 75 per cent of the cooperative business is done for profit by marketing and producers' cooperatives. This leaves the consumer cooperatives with 1.3 per cent of the country's retail business.(3)

There has been approximately a 40 per cent increase in membership in cooperatives in the United States during the depression. In September, 1935 there were about 500 cooperative retail stores in this country. There were at that time approximately 30 important wholesales in this nation, whose annual business amounted to \$70,000,000.(4) These wholesales are beginning to set up their own manufacturing plants, a practice which some European cooperatives adopted some time ago. As the cooperatives set up wholesales they will be able to purchase more cheaply and to increase dividends to members.

There are approximately 2,000,000 American families, most of them in farm areas, which have already saved themselves money by practicing cooperative buying. In 1936 the gross business of consumer cooperatives in

(1) "Consumer Cooperatives; Gross Business in the United States for 1936: \$500,000,000", Fortune. (March, 1937) p. 139.

(2) *Ibid.*, p. 139.

(3) *Ibid.*, p. 140.

(4) D. D. McKean, "Consumers' Cooperation To-day", New Republic. (May 6, 1936) p. 359.





this country was \$500,000,000, while \$425,000,000 was the estimated figure for 1935.(1)

### Forms and Expressions of Cooperation

The main forms of cooperation are found in the fields of retailing, wholesaling, housing, insurance and banking. Several other forms may be found in the fields of printing, baking, transportation and in other lines of business endeavor. However, the prominence and size attained by the latter is of such small significance that it behooves us to consider in detail only the main forms.

Distributive Stores.-- The distributive retail store is the main cog in the consumer's cooperative society. Set up as a means of taking over the distribution of goods, these stores are started through the raising of a small amount of capital and through the purchasing of commodities which are to be stored in an individual's home or other place for division among the members. Then, a definite organization is set up; capital is obtained, and a larger enterprise is effected.

The usual procedure for the stores of cooperative societies is to stock goods which the members want. As a rule, necessities such as food and clothing are first stocked. Then, less commonly used articles are added. Large cooperative societies usually own and manage their own department stores.

Cooperative Wholesaling.-- Cooperative wholesaling is carried on by organizations set up through a federation of distributive societies, the consumers' societies receiving shares in return for their paying in of share capital. The members of the wholesale are the retail distributive stores. The two bases of the amount of administration which each member society has

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(1) Fortune, (March, 1937), op. cit., p. 133.





in the wholesale are:

- (1) The size of its membership.
- (2) The amount of business which it does with the wholesale.

The wholesale is administered both by a board of directors and by an executive committee. As a rule, the members of both bodies are full-time salaried officials who choose the managers and other officials.

Cooperative Housing.-- An outstanding example of cooperative housing is that which is taking place in Greenbelt, Maryland. This represents the United States' first experiment in socialized housing, for it was built by the Resettlement Administration to provide low-rental homes in a model suburban community. It furnishes the ground for this country's first experiment in the socialized distribution of goods and services.

Greenbelt is also serving as a consumer cooperative experiment financed by the late Edward A. Filene's Consumer Distribution Corporation. According to the terms of the contract between the Consumer Distribution Corporation and the Resettlement Administration, the former is to finance the establishment of all business enterprises in the new town and to supervise their operation until the time arrives when the original funds are repaid through the sale of stock to Greenbelt residents.

Cooperative Insurance.-- This is the most fully developed phase of the cooperative movement in the United States. Surprising though it may seem, cooperative insurance has experienced a much larger growth in this country than either consumer cooperatives or credit unions.

Cooperative Banking.-- Cooperative banking or cooperative credit is the last main phase of the cooperative movement, and since its chief expression the credit union is the subject to be discussed in this thesis, mere mention of it is sufficient at this point.





## Cooperative Credit

### The Philosophy of Cooperative Credit

The old fable of the father calling his sons together and forcefully bringing out the point that though it may be easy to break each one of a pile of sticks, if the pile is tied together, it is much more difficult to do the same, is very fitting here. The credit of an individual is both much more secure and much more valuable, if he is a member of a cooperative credit society. The old adage that "in union there is strength" serves us well at this point.

If a group of individuals get together and pool their resources, their collective credit is much more valuable than the credit of each individual. The reason for this is found mainly in the fact that the shock of the losses which may be experienced can be spread over a larger area, and thus will be felt less by the individual.

The members of a credit union are usually those people who desire to borrow small amounts for a short time, usually for provident purposes. The ordinary commercial bank would not be interested in loaning to them, as it may not consider the loan large enough or the security adequate. As individuals they would be forced to rely upon small loan agencies or become a prey of usurers.

As group-borrowers organized on a cooperative basis the situation would be entirely different. Collateral requirements would not be as stringent as those set up by a bank or a small loan agency, as in some cases credit unions make loans on the strength of good character only. Then, too, the credit union is organized and managed for the interest of the potential borrowers. The personal element is more important here, and since all members may not need loans at the same time, surplus funds may be invested





temporarily, eventually reducing the interest rate charged borrowers.

### The Fundamentals of Cooperative Credit

Credit unions usually adhere to the following principles:

- "(1) Membership is restricted to those persons of good character who have a community of interest with the credit union group.
- (2) Low membership fees are charged, and the shares issued are of small denominations which may be paid for on the instalment basis.
- (3) Democracy of control is in force, with officers and committee members elected by and responsible to the members.
- (4) A member has only one vote, regardless of the number of shares held. No proxies are permitted.
- (5) Loans are extended to members only.
- (6) Directors, officers, and committee members are not allowed to borrow, as a rule.
- (7) Loans are made only for productive and urgent needs.
- (8) The amount of the loan depends not on the member's investment in the society but on his needs and character.
- (9) Loans are made at low rates of interest, which (interest) is generally payable only on unpaid balances.
- (10) Dividends are payable on all fully paid shares of stock."(1)

### The Credit Union

#### The Credit Union Defined

There are several definitions of the credit union. Some stress certain activities in which a typical credit union engages, while others are descriptive in the sense that they attempt to define the association within a special sphere of cooperative activity. Then, too, definitions may be presented according to whether the credit union is being formed under a specific state law or under the Federal law. At this point, I

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(1) F. E. Parker, "Operations of Cooperative Credit Societies in 1933", Monthly Labor Review. (September, 1934), p. 553.





therefore desire to take up several definitions of the credit unions, attempting to call attention to the salient provisions in each.

Mr. Bergengren in his second book on the credit union defines it in the following manner:

"A credit union is a cooperative society, organized with definite membership limitations in accordance with the provisions of some State law authorizing credit union organization and operating under the supervision of some State Department, managed by a Board of Directors and Committees, chosen by and from the members (in elections in which each member has one vote and only one vote whatever his share holding), purposed to supply the members with a simple, convenient system for saving money (which stresses habitual saving and specializes in behalf of the member of the group who can save the least as well as the member who can save the most), making it possible for the members, with their own savings and under their own management, to take care of their own short-term credit problems at legitimate rates of interest; the interest paid by members on loans reverting to the members as dividends on their savings and as surplus."(1)

A Comment on Mr. Bergengren's Definition.-- Some authorities may claim that the above definition is too lengthy. However, in justice to Mr. Bergengren, it must be understood that he was striving to have his definition as all-inclusive as possible. Needless to say, it is a descriptive definition which attempts to limit the credit union within a definite sphere of economic activity.

Mr. Bergengren defines the credit union as a cooperative society. This seems to substantiate my contention which I have previously stated and which I attempted to prove by showing that cooperatives and credit unions have the same objective - the placing of commodities or credit in the hands of the members of the society as cheaply as possible. By definite membership limitations is meant that there must be a common bond among those forming the credit union, such as membership in the same fraternal organ-

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(1) Roy F. Bergengren, Credit Union - A Cooperative Banking Book, pp. 12-13.





ization, membership in the same church, common employment, whether it be industrial, governmental or educational, et cetera.

When Mr. Bergengren wrote his book in 1931, credit unions could be formed only after the enactment of a credit union law in the state of organization. To-day, credit unions may be organized anywhere where the American flag flies, as a Federal law was enacted in 1934. Therefore, this provision concerning the organization of a credit union in accordance with the provisions of some state law authorizing credit union operation is no longer universal.

The supervisory branch of the state government is usually the state banking department. However, there are certain exceptions to this. To mention a few, in Alabama jurisdiction over credit unions rests with the Superintendent of Insurance; in Missouri, it is in the hands of the Commissioner of Securities, while in North Carolina the supervisory authority is the Superintendent of Cooperative Associations.

The management of a credit union is in the hands of the board of directors, the credit committee, and the supervisory or auditing committee. The individual state laws usually state the lower limit only as to the number of directors and credit committee members. On the other hand, the supervisory or auditing committee is usually stated at a definite number. The officers as a rule are the president, one or more vice presidents, the clerk, and the treasurer, who are elected by the directors. The treasurer is the most important officer in the credit union, and he usually receives a salary. More will be said concerning credit union management in a later chapter.

Mr. Bergengren states in his definition the two-fold purpose of the credit union:





- (1) The offering to members a means of saving money.
- (2) The presenting to members an opportunity to meet their short-term credit needs at legitimate rates of interest.

The second objective is more important than the first from a credit union standpoint. A credit union whose aim is to pay high dividend rates at the expense of those who desire to borrow money is not conforming to true credit union principles. An ideal credit union situation is one where most of the assets of the society are represented by loans to members. As of December 31, 1937, approximately 81 per cent of the assets of Federal credit unions was composed of loans to members.(1)

Members of a credit union meet their short-term credit needs by obtaining loans for either provident or constructive purposes. A provident purpose may be defined as one which promises to benefit the borrower. On the other hand, a loan for constructive purposes is one which promises to aid the borrower improve his status in life. The matter of loans will be treated in detail when we consider the duties of the credit committee.

Finally, the granting of loans at legitimate rates of interest is the last element of Mr. Bergengren's definition to be discussed at this point. The practicing of usury may be considered one of the main causes of the rise of the credit union. In Germany, Raiffeisen was appalled by the widespread practice of usury; in Canada, Desjardins was confronted with the same situation. Farmers in both countries were in the clutches of the money-lenders who charged exorbitant interest rates. These potential borrowers could not avail themselves of the use of the facilities of the ordinary commercial bank, either because the size of the loan needed was of too small a nature to warrant the bank's attention or because the

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(1) Federal Credit Unions - Quarterly Report on Operations - December 31, 1937,  
p. 1. Farm Credit Administration. Washington.





borrowers were not able to meet the bank's stringent collateral requirements.

From an ethical standpoint, what is a legitimate rate of interest? I am of the opinion that it varies with the class and the needs of the borrower. The interest rate charged by banks varies according to the credit rating and the quality of security provided by the borrower. Borrowers such as municipal governments are usually quoted a very low interest rate because of their high credit standing. The risk element is all important to a commercial bank.

However, when we are considering the credit union, we get away from the hard and fast rules of commercial banking. The credit union is not a business enterprise but is in reality a religion, a religion where service to man is a counterpart of service to God, a religion where the golden rule is ever present.

A credit union's aspect of a legitimate interest rate is therefore entirely different. The entire membership reasoning collectively rationalizes in this fashion: my fellow worker (or my fellow parishioner, my fellow lodge member, et cetera) needs credit facilities. The question is not how much profit can we realize if we loan money to him, but rather, what is the cheapest rate can we offer him, consistent with good credit union practice? Here, dividends to members are subordinate to savings to borrowers. The rate of interest which credit unions commonly consider legitimate is one per cent a month on the unpaid balance.

Other Definitions of the Credit Union.-- Dr. Frank O'Hara defines the credit union as "a cooperative society organized under state or federal law for the twofold purpose of encouraging its members to save and supplying





them with a source of credit for provident or productive purposes." (1)

This definition has most of the elements included in Mr. Bergengren's definition quoted above. However, Dr. O'Hara brings the latter's definition up to date in this respect: he brings out the fact that credit unions may now be organized under state or federal law.

Another definition of the credit union is one which was presented in the July 24, 1936 issue of the Commonweal. The definition given is as follows: (2)

"A credit union is a corporation organized under state or federal charter and subject to the usual banking regulations. It is in reality a species of miniature bank; it receives deposits, makes loans, and is empowered to invest its surplus in approved societies. The credit union is a cooperative bank because it is owned and managed by its members, each member having one vote in the election of officers. It accepts the savings of its members in weekly, semi-monthly and monthly instalments."

The above definition differs from the other two quoted in that it looks upon the credit union as a kind of small-sized bank which, in addition to accepting deposits and making loans, has the power to invest its surplus funds in certain approved societies. As a rule, these approved societies are those which are considered legal for savings bank investments. The definition also brings out the fact that members may pay for their shares in weekly, semi-monthly or monthly instalments.

#### Credit Union Formation

Before the credit union is organized, certain questions must first be answered by the potential members. Does a need for this credit union exist? Do we have the essentials for successful credit union oper-

(1) Frank D. O'Hara, Credit Unions, p. 5. Social Action Series No. 7, New York. The Paulist Press.

(2) E. Schmiedeler, "Cooperative Credit", Commonweal. (July 24, 1936), p. 321.





ation? If these questions can be answered in the affirmative, the next problem that must be solved is whether to organize under a state or Federal charter. This step requires careful examination of both the particular state and the Federal credit union laws. There is a wide difference among the individual states in the matter of organization fees. Then, too, certain states which do not look upon credit unions too favorably, have too rigid supervision and attempt to stifle credit union development. Although there is relatively little difference between state and Federal procedure so far as the operations of a typical credit union are concerned, the matter of organization fees and the amount of supervision may constitute the impelling factor to choose one rather than the other.

After a choice is made concerning organization under a state or Federal charter, the next step is to obtain the required organization forms, prior to the organization meeting. At the organization meeting it would be wise to have present a state or Federal organizer to explain the plan, answer questions, and aid the group in signing papers which must be notarized. An application for a charter is then sent to the state or federal government, along with the by-laws adopted by the members. After the charter is granted, a meeting is held to elect directors, committee members, et cetera. When the credit union has received its supply of work booklets and bookkeeping forms, the society is about ready to do business.

At the first directors' meeting a quorum must be present. The directors elect from their own number a President, one or more Vice-Presidents, a Treasurer, and a Clerk (the duties of the Treasurer and the Clerk may be performed by one man, according to most laws). At this directors' meeting the directors, committee members, and officers are sworn in, and the treasurer is bonded. A bank of deposit is chosen, and the interest





rate on loans is determined. Now the credit union is ready for business.

### Credit Union Operation

Ownership in a credit union is represented by a share of a definite value (usually \$5.00) payable in cash or in instalments. The entrance fee seldom exceeds twenty-five cents. When the credit union has acquired sufficient funds via these means to make loans, the credit committee sanctions loans which are in keeping with the credit union's supply of funds available for this purpose.

A credit union does both a small loan and a small investment business. A great number of its loans are character loans, although specific collateral or a co-signer may be demanded in certain cases. The members pool their savings, and loans are made out of this pool to members who may need them. Deposits may or may not be received from members, depending upon the provisions of the law under which the society is operating.

Profits realized on a credit union's business operations are paid out in dividends to its members in proportion to their holdings. However, before dividends are declared each year, a portion of the profits (usually 20 per cent) is segregated as an indivisible surplus belonging to the members as a whole and to be divided only in case of liquidation.

### Collateral Requirements

A major part of the small loan business of a credit union is conducted without any security of any sort - on the unendorsed promise of the borrower to pay back. The balance of the business is transacted on the same general scheme as that of the industrial banks and the personal loan departments of commercial banks - on the collateral of a note guaranteed by two co-makers.





A small but increasing number of credit union loans are now being made on first and second mortgage collateral. The trend toward the mortgage business is especially noticeable among the older credit unions, the members of which are most likely to have become possessed with property. A few credit union loans are secured by wage assignments and chattel mortgages. Finally, members may be required to pledge their shares of credit union stock when borrowing.

Evans Clark in his book called Financing the Consumer lists the proportion of the total number of credit union loans secured by each type of collateral as follows:(1)

Unendorsed promissory notes	50 %
Co-maker notes	30 %
Mortgages	15 %
Wage assignments	5 %

#### How a Credit Union Differs from a Building and Loan Association

Building and loan associations and credit unions are alike in this respect - both are technical cooperative societies, with the net earnings reverting to the members as dividends on their savings. However, in other respects they are entirely different. Building and loan associations make loans to aid members to build and purchase homes. Since these loans are relatively large, building and loan associations are, for the most part, not limited to specific groups, possessing large membership and assets.

Credit unions, on the other hand, concern themselves with the short-term credit needs of their members. They are organized within

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(1) Evans Clark, Financing the Consumer, p. 96.





specific groups, and may be quite small and yet effective.

#### How a Credit Union Differs from a Commercial Bank

A commercial bank is organized under state or Federal law to do a general banking business. Since it is not organized on a membership basis, it is therefore not limited to loans to members or to a fixed scope for its operations.

The commercial bank is made possible by invested capital, to which capital reverts all net earnings over and above what may be paid as interest on deposits. It possesses none of the attributes of a cooperative society.

#### How a Credit Union Differs from a Morris Plan or Other Industrial Loan Bank

Industrial loan banks are also made possible by invested capital and do not possess any of the attributes of cooperatives. They engage in a small loan business much like that of credit unions and place emphasis on saving. These industrial loan banks must operate on a relatively large scale, as they have relatively high overhead expenses and are obligated to pay substantial dividends to the capital invested.

In contrast, a credit union is limited to its own members, obtains its money exclusively from members, makes loans only to members, is managed by members, with the earnings reverting to the members as dividends on their savings.

#### How a Credit Union Differs from a Savings Bank

A savings bank is also a large institution concerned with the small savings of a large number of people, which savings are loaned on first mortgages. The difference from a credit union is that the latter is concerned with personal small loans and, serving groups of varying size, may be quite small and yet effective. While the profit motive is ever





present in a savings bank, the service motive is the dominating force behind credit unions.

How a Credit Union Differs from a Chattel Loan Company Operating under the Uniform Small Loans Law

A chattel loan company operating under the Uniform Small Loans law is also made possible by invested capital and makes loans - not to members - but to the general public, secured by endorsers of chattel mortgages. The Uniform Small Loans law provides that such lenders who meet the requirements of the law and come under supervision may charge the maximum rate allowed under the law on loans of \$300.00 and less (generally 3 per cent a month on the unpaid balance). Credit unions, on the other hand, limit their charges to 1 per cent a month on unpaid balances, with the profits reverting not to investing capitalists, but to the members, and loans are made to members only.





## CHAPTER II

### OLD WORLD ANTECEDENTS OF CREDIT UNIONS

No treatment of any movement would be adequate if we failed to trace it from its source. The American credit union is not a pure local institution but finds its roots in the cooperative credit movement which started in Europe about the middle of the nineteenth century. It is therefore essential to give at this point a full treatment to the European development so that we may understand better the American phase when we come to it.

#### Early but Insignificant Experiments in Cooperative Credit in France and Belgium

##### France's Contribution to the Early Development

The reign of Louis Phillipe, king of France from 1830 to 1848, was featured by a rising tide of protest on the part of the poorer classes and a growing sentiment for social reform. Buchez, Proudhon, and Louis Blanc were the three men in this reform movement who merit our attention.

Buchez (1796-1865):-- This Frenchman was the founder of an association of cabinet-makers in 1832, and one for goldsmiths in 1834. In these associations he developed the idea of an undistributable surplus, a non-transferable fund to which a certain part of the earnings must be credited each year. This idea was his sole contribution in the field of cooperative banking.

Pierre Joseph Proudhon (1809-1865):-- In 1848 Proudhon ventured forth with a "People's Bank" which possessed a structure which was far from cooperative. The bank failed after a few months of operation,





preventing to a great extent the development of any genuine cooperative banking movement in France.

Louis Blanc (1811-1882):-- Louis Blanc was perhaps the most known person in the history of French Socialism. He popularized the idea of cooperative production. Due to his efforts, an appropriation of nearly \$600,000 was made by the French government in 1848 to supply capital for "national workshops".(1) Blanc's political opponents, who had charge of the fund, did all they could to make the plan fail. However, a few of the state-aided cooperative societies experienced moderate success.

#### Belgium and Its Part in the Cooperative Banking Movement

M. Francois Haeck:-- In 1848 Haeck was responsible for the formation of the first true credit union. He prevailed upon a group of men to join together, each subscribing for one share of stock in the bank being formed. Each member paid in a small part of the par value of the share, entitling him to have the Union endorse or "accept" his paper up to an amount equal to the share's par value. This paper was purchased by investors, who sought payment from the Union.

Haeck's idea attracted rich men to become members, and as a result, membership became exclusive. This is most likely why the Belgian scheme did not grow more rapidly.

#### Germany as the Cradle of the Cooperative Credit Movement

As has been previously stated, Germany's part in the cooperative movement was in the field of credit. The reasons for Germany's taking the lead among countries in regard to cooperative credit are threefold.

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(1) D. S. Tucker, The Evolution of People's Banks, p. 16.





The first can be perceived after a study of that country's large population about 1850. "Cooperation could spread within it to a very considerable extent without encountering the obstacles of diversified speech and ideals." (1) To a great degree it was still feudal in nature, with class stratification prevalent.

Secondly, the presence in north Germany of certain definite institutions whose operation had to a great degree made the people familiar with some types of cooperative organizations, was a contributing factor. The most important of these was the joint stock company. Charitable loan associations were also in existence there. Finally, there were in that part of the country some institutions which resembled to some extent the English friendly societies and savings banks.

Thirdly, and of greatest importance in this respect, were the guilds of Germany. They had endured far better than those of any other nation.

#### Victor Aime Huber (1800-1869)

Victor Aime Huber was the pioneer who explained the cooperative movement and presented its possibilities to the people of Central Europe. It was he who provided the spark which caused the coming into being of cooperative banking.

His Interest in Cooperation:-- Huber's interest in cooperation was first aroused as a reaction from his hatred for the truck system, under which scheme the workers were paid not in cash but in orders on the company store, or in commodities at prices determined by the company. As a consequence, his first interest was in cooperative buying as practiced

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(1) D. S. Tucker, op. cit., p. 17.





by cooperative stores.

In studying these cooperative stores, Huber discerned three systems of distributing the profits of the business:

- "(1) Dividing them among the owners of stock in the business as in an ordinary commercial enterprise.
- (2) Devoting the profits to some common purpose.
- (3) Dividing the profits among members, in accordance with their purchases (the Rochdale plan)."(1)

Huber's beginning of his advocacy of cooperation and the inauguration of the Rochdale plan occurred almost simultaneously. It was his belief that cooperative associations must steer clear of political affiliations. His practical experience in conducting cooperative associations was not extensive. However, he did accomplish this much - he was the one who explained the cooperative movement to Germany and called the attention of the world to its ethical aspects. He built the stage on which Schulze-Delitzsch and Raiffeisen could later walk.

#### Herman Schulze-Delitzsch (1808-1883)

It was with Schulze-Delitzsch that cooperative credit really came into its own. His name was originally Schulze, but when he was elected to the National Assembly in 1848, he annexed the name of his home town, Delitzsch, to his own, so that he could be distinguished from another member of the Assembly bearing the same name.

His First Venture in the Field of Cooperation:-- A crop failure in 1846 gave Schulze the spark which later meant so much to the cooperative banking movement in Germany. He formed a committee to give relief to the sufferers. This committee proved very efficient. A grist mill and a

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(1) D. S. Tucker, op. cit., p. 23.





bakery were rented, and grain was purchased in large quantities, from which bread was made. The very poor were given the bread free, while the less needy purchased it at half price. This action by Schulze's committee helped to stem the tide of rioting which was then prevalent in that part of Germany.

Other Ventures in Cooperation:-- In the summer of 1849 Schulze-Delitzsch founded his first cooperative society. It was a friendly society of the kind which provided insurance against sickness and death. In the autumn of 1849 he founded two cooperative purchasing societies, while in 1850 he started a loan association.

Schulze's Cooperative Purchasing Societies:-- In the fall of 1849 Schulze set up a cooperative purchasing society for cabinet-makers. In the winter of the same year he organized a similar group for the master shoemakers of his village. The members of this latter body were men who conducted their own little shops and did their own work. They possessed neither money nor credit to compete with the larger business enterprises and with the factories.

To bring this unfortunate situation to an end, a loan of \$7.20 was obtained by the shoemakers' cooperative purchasing society. With this money the society bought a supply of leather in Leipsic. Because it purchased such a large quantity, it was quoted a price lower than the individual members had to pay in the past. The supply was resold by the society to its members with an 8 per cent increase in price.

However, the members received the raw material at a figure 15 per cent less than usual. Why the 8 per cent appreciation in price? It was to be used to pay the interest on the borrowed capital, to cover management costs, and to build up a surplus in the society's treasury.





Nevertheless, it became evident that the extension of credit in some manner was necessary, as the members did not have funds with which to purchase the cheap raw material for their own purchasing society. To provide this credit, Schulze founded in 1850 his first loan society.

The Loan Society:-- This loan association was composed of honorary members as well as beneficiaries. The honorary members were some of Schulze's rich friends who contributed a capital of \$140. Borrowers were forced to join and to contribute 5 cents each month toward the permanent capital of the society. The funds of the society were lost, causing the honorary members to leave the organization. Only the beneficiary members, the potential borrowers, were left.

These beneficiary members soon found themselves in dire straits, as the granting of unsound loans had almost wiped out the society's capital. Schulze-Delitzsch then reorganized the society on the basis on which it then was - a society of borrowers only. The organization of his first people's bank in 1852 was the result.

#### The First People's Bank at Delitzsch

##### The Principles of the Schulze-Delitzsch People's Banks:--

From the time of institution in 1852, the principles of the Schulze-Delitzsch people's banks have for the most part remained unchanged. They are:

- "(1) The exclusion of charity and patronage. The society was to be run on business principles.
- (2) The joint liability of all members for the debts of the society.
- (3) Systematic borrowing or acceptance of deposits on the basis of this joint liability.
- (4) Loans only to those who could use them productively.





- (5) Regular contributions by members toward the society's working capital.
- (6) One more principle which was adopted later: namely, an inclusive membership, that is a membership open to all worthy seekers after credit, not limited to any occupation, social class or even to too small a geographical area."(1)

The reason for the unlimited liability was twofold:

- (1) It aided in bringing home to each member the fact that it was his duty to see that the society was run properly.
- (2) It aided the society's obtaining the confidence of potential creditors and depositors.

The First Statutes of the Delitzsch Bank:-- The first statutes of the Delitzsch bank pertained to requirements for borrowers. An eligible borrower must have been:

- (1) A member in good standing paying dues for at least three months.
- (2) A person without a criminal record.
- (3) One who had not defaulted on a previous debt, either as to principal or security.
- (4) Able to put up the necessary security for the loan.

Provisions of the By-laws Adopted in 1852:-- According to the by-laws adopted by the Delitzsch bank in 1852, the entrance fees, the monthly dues and one-tenth of the annual dividends were to be segregated to pay the future cost of operation and to rid the association of debt.

Interest to Depositors:-- Schulze's first people's bank guaranteed to all depositors interest at the rate of 5 per cent. This was much higher than that given to depositors by the local savings bank. This high interest rate plus the unlimited liability provision in regard

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(1) D. S. Tucker, op. cit., p. 48.





to members attracted depositors. The bank's deposits gradually grew to a point where the potential deposits far exceeded the demand for loans.

As a result, it was possible to lower the interest rate to depositors and also that charged borrowers. In 1855 the rate to depositors was  $4\frac{1}{2}$  per cent.

Par Value of Shares:-- Sixteen thalers (\$12.00) was set as the par value of shares in the first Union at Delitzsch. These shares were payable in instalments, and the money paid for them became the property again of the member upon his withdrawal from the society.

Dividend Requirements:-- To encourage members to save as much as possible, Schulze planned to pay fairly high dividends if possible. Dividends were not to be paid out in cash but were to be credited to the member as partial payment on his shares. The members could not draw dividends in cash until their shares had been fully paid.

Plan as to Owned Capital:-- Schulze's first plan was to build up the society's owned capital so that there would be no need for borrowed capital. This proved both impossible and unnecessary. He later attempted to keep owned capital up to one-third of total capital. However, for the banks as a whole, this ratio of owned capital to borrowed capital has never quite equalled 35 per cent, which was far below Schulze's expectations.(1)

The Officers of the First Union:-- Schulze was both president and manager of the first Union. He presided at meetings of the "smaller committee" of officers and at meetings of the full committee. (The composition of these committees will be discussed on page 32). The

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(1) D. S. Tucker, op. cit., p. 168.





treasurer, the second officer, acted as both cashier and bookkeeper. The secretary was the third officer.

The secretary was also the auditor and supervised the treasurer's work. The latter could not pay out money except upon an order signed by the president and one other member of the committee.

The Eilenberg Society:-- In 1850, at Eilenberg, a town near Delitzsch, a friend of Schulze-Delitzsch named Dr. Bernhardt, with the aid of a tailor named Bauermann, had set up a cooperative credit society. This society was based wholly upon the principle of self-help, for the first time entirely eliminating patrons or charity givers.

This society had borrowed the money it needed on the joint and several liability of its members, with the understanding that each member was to invest to the best of his ability. By 1852 its membership totalled 586, to whom it made 717 loans, the average loan amounting to \$142.(1) This society at Eilenberg warrants our attention largely because of the fact that when Schulze reorganized his loan society in 1852, he injected some of the best features of the former into his renovated organization.

Expansion of Schulze-Delitzsch Societies in Germany:-- The following quotation from the late Myron T. Herrick's Rural Credits adequately describes the early expansion of Schulze's Societies:

"Gradually the two credit associations at Eilenberg and Delitzsch were followed by others in the Province of Posen and the kingdom of Saxony. By 1859 there were in existence 183 associations with 18,576 members, and a convention (at which twenty-nine of them were represented by thirty-eight delegates) was held at Weimar, and the General Federation organized. Schulze-Delitzsch was elected president and was voted a salary to consist of two per cent of the net profits of all the associations on the understanding that he should engage in no other business and should devote all his time and ability to the Federation. And from 1860 until the time of his death he gave his time exclusively to its work."(2)

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(1) Roy F. Bergengren, Credit Union - A Cooperative Banking Book, p. 146.

(2) Myron T. Herrick and R. Ingalls, Rural Credits - Land and Cooperative, p. 266.





By 1861 there were 364 of these banks, which possessed 48,000 members.(1) In 1883, the year of Schulze-Delitzsch's death, the number of banks was 1,910, with approximately half a million members. In 1931 there were about 12,000 of these banks in Germany.(2)

The Practice Now in Regard to Loans(3):-- While deposits are received from non-members, loans, however, are made to members only. Loans are granted after taking into consideration the applicant's character, capacity, and his capital. Character is stressed more here than in ordinary banking.

Absolutely unsecured loans are rarely permitted. The majority of the loans are granted on personal security - promises to pay secured by the guaranty of one or more persons other than the borrower. The maximum amount which any member can borrow is stipulated in the by-laws of each society.

The Structure of a People's Bank(4):-- Democratic self-government was the fundamental principle of Schulze's first bank. The original management was vested in the meeting of all the members, known as the general assembly. As the business grew, it became necessary to delegate a great amount of authority to subordinate groups.

Management of the Individual Bank:-- The general organization of the Schulze-Delitzsch movement has little authority over the individual banks. Requirements for membership in the general organization are general in nature, with no bank being compelled to join. For the most part, local autonomy exists.

(1) Roy F. Bergengren, Cooperative Banking - A Credit Union Book, p. 47.

(2) Roy F. Bergengren, Credit Union - A Cooperative Banking Book, p. 147.

(3) This applies only to People's Banks in Germany prior to the Hitler regime. Due to a lack of information concerning their present status, I am unable to state definitely as to whether these conditions still prevail.

(4) Ibid.





Each bank draws up its own articles of agreement or constitution, subject only to the law of the land. Each bank, in compliance with these articles of agreement or constitution, is governed in the last analysis by its own general assembly or members' meeting.

The Committee:-- This body was even in existence in Schulze's first bank in 1852. It consisted of the president, (1) the treasurer, the secretary and nine members. A by-law passed in 1853 stated that:

"all demands and propositions made to the union, particularly requests for loans, must be presented to the committee in writing. The committee is to decide on these matters in its meetings, is to provide for securing the capital necessary, the collection of what is due and to keep business going in an orderly fashion. For the despatch of current business there shall be each week a regular meeting of the committee." (2)

A "smaller committee" composed of three officers was set up to take care of routine matters. However, it is necessary to obtain the approval of the entire committee when important business such as the admission of new members, the borrowing of additional funds, or the granting of loans comes up.

Frederick William Henry Raiffeisen (1818-1888)

Raiffeisen like Schulze-Delitzsch was responsible for the introduction of cooperative credit into Germany. Both men were interested in the same problem, Raiffeisen from the aspect of the small farmer who was in dire need of legitimate credit sources, and Schulze-Delitzsch from a study of similar problems among urban wage workers. While one worked to set up rural credit, the other strove to rescue city dwellers from the loan sharks. It is therefore appropriate to consider at this point the work accomplished by Raiffeisen in the field of rural cooperative credit.

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(1) See page 29 for a discussion of officers.

(2) D. S. Tucker, The Evolution of People's Bank, p. 181.





Raiffeisen's Economic Life:-- In 1846, while burgomaster of Weyerbusch, Raiffeisen set up an association for purchasing food and another for baking and selling bread to the extremely poor people. In 1847 he formed an association to furnish peasants with wheat and potatoes for planting. In 1849 he was responsible for the establishment of an association to loan money to peasants in the vicinity of Flammersfeld (of which at the time he was mayor) and to sell to them cattle to be paid for in five instalments.

The period between 1846 and 1849 was one of famine in Germany. The only possibility of the peasants' obtaining credit was through the usurer. Raiffeisen's associations cut the price of bread in half and eased to a great extent the dire situation. However, his associations could not be classed as cooperative in nature. They were merely benevolent groups which desired to mete out charity to the starving people. The element of self-help, a characteristic of true cooperative societies, was lacking in the Raiffeisen associations.

The Flammersfeld Association:-- This group was composed of 60 wealthy citizens who most likely were influenced by Raiffeisen's position as mayor. The members were liable for all debts and reserved for themselves the control and the final say in regard to new members and the granting of loans.

The Societies at Heddesford:-- The first credit society at Heddesford was founded by Raiffeisen in 1854. Here again the self-help principle was lacking. Loans were made to peasants and many other social service activities were also conducted. This society of 1854 was similar in many respects to the one at Flammersfeld.





Raiffeisen's early societies caused him much trouble. His wealthy backers refused to furnish him any personal service, after the novelty of the situation wore off. In time he came to a realization that the principle of self-help, which had proved so successful in the Schulze-Delitzsch set-up, must be applied to his own associations.

Therefore, a new society was formed at Heddesford in 1864. Raiffeisen's only aim in this organization was to grant loans to members residing in that region. Membership was to be confined to farming people. The society experienced a slow growth, for the people were both ignorant and suspicious of changes of any sort.

Later Development:-- 1868 marked the organization of five other Raiffeisen societies.(1) In 1869, 22 more were inaugurated. Up to 1880 growth was slow but increased rapidly thereafter, and in 1888 (the year of Raiffeisen's death) there were 425 such societies.(2) Growth was very rapid between 1890 and 1894, and in 1912 Germany possessed one rural cooperative association for every 2,494 inhabitants.(3) Mr. Bergengren in his second credit union book makes this significant statement:

"Some measure of the service of this man . . . is contained in the report of the United States Commission which made a study of rural credit abroad in 1912 and reported that January 1, 1910, there were 14,993 Raiffeisen banks in Germany with a membership of 1,447,766 and total outstanding loans of \$452,749,961."(4)

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(1) Myron T. Herrick and R. Ingalls, Rural Credits - Land and Cooperative, p. 286.

(2) Roy F. Bergengren, Cooperative Banking - A Credit Union Book, p. 44.

(3) Myron T. Herrick and R. Ingalls, Rural Credits - Land and Cooperative, p. 286.

(4) Roy F. Bergengren, Credit Union - A Cooperative Banking Book, pp. 45-6.





Organization and Administration of Raiffeisen Societies(1):--

Prior to 1889 Raiffeisen's banks were different from Schulze-Delitzsch's in that the former possessed no shares. In 1889 a capital stock requirement in the second German law on cooperation eliminated this difference. The size of one share was fixed at \$2.50, which could be paid for on an instalment basis.(2)

Profits of a Raiffeisen society are used:

- (1) To take care of any deficiency in the paid-up capital.
- (2) One-fifth of the remainder is used for social welfare work.
- (3) What is left is placed in the reserves.(3)

The reserves are composed of a fund to take care of annual losses and another called the foundation fund. These reserves are not fixed in size, but are permitted to grow until they are deemed sufficient to take care of the group's working capital requirements, free the society from the necessity of external aid, and help it take care of some object of general usefulness for the welfare of the members.

The Management of a Local Raiffeisen Society(4):--The committee of management of a local society is composed of three members elected for four years, two or three going out of office every two years. Meetings of this group are held monthly. The board of supervision is composed of from three to nine members elected for three years, one-third leaving office every year. Meetings of this body are held every three

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(1) See footnote on page 31.

(2) M. T. Herrick and R. Ingalls, op. cit., p. 288.

(3) Ibid.

(4) See footnote on page 31.





months.

The duties of the officers in a local society are very much like those of the Schulze-Delitzsch officers. However, the managers of a Raiffeisen society must supervise the use to which loans are put and also must take care of the purchasing and selling done by the society.

The secretary is the sole paid officer, elected by the members for a four-year term. He acts as both bookkeeper and treasurer.

The members meet semi-annually, once in the fall and again in the spring. A majority vote is required to settle matters. However, a three-fourths vote is essential to discharge managers, to change the articles of agreement, or to disband the group.(1)

Other Functions of Raiffeisen Societies:-- Other functions of Raiffeisen credit societies, besides the granting of credit to members and the receiving of deposits, include the cooperative purchasing of machinery, farm supplies, and other necessities to be used in common by the members. These groups do not deal in groceries or household necessities. Such commodities as fertilizers, seeds, machines, coal, et cetera are bought by the car load at wholesale, and the members are permitted to purchase them from the society on an instalment basis.

Loans of Raiffeisen Societies:-- Those loans extending over a year are granted in annual instalments. Renewals of shorter ones are permissible by periods of three months up to two years. The society reserves the right to call in all loans on four weeks' notice. Security for loans is required at all times. Two-thirds of the property's value is the limit for real estate loans.(2)

(1) M. T. Herrick and R. Ingalls, op. cit., p. 289.

(2) Ibid., p. 290.





### The General Federation of the Rural Cooperative Societies

of Germany:-- This Federation was formed in 1877. Its purpose is to protect the societies' interests, handing out advice and conducting the work of propaganda and organization. It owns a library and a press, deriving its income from the sale of its printing and literature. The Federation contacts insurance companies for inexpensive rates for farmers, for which work it obtains commissions.

Under this Federation groups of local societies are called unions. These unions are in reality provincial federations. The large unions are often divided into sub-unions.

### Comparison of Schulze-Delitzsch and Raiffeisen Societies

Both the Schulze-Delitzsch and the Raiffeisen societies were unsuccessful as charitable organizations, but were successful as business enterprises. Both were organized for similar purposes - "to obtain by combination credit that could not be obtained individually, to combat usury, to encourage thrift, and to change dependent into independent producers." (1)

Officers and Buildings:-- Schulze societies are called people's banks. As a rule, they are housed in a building owned by the society, which is often the main building in the town. They have paid clerks, have regular banking hours, and resemble small state or private banks in this country.

Raiffeisen societies, on the other hand, are called village banks. The only paid official is the accountant, who usually is the village priest or school teacher. His office is frequently in a room in his house or barn, which office is open for business only at stated times - usually holidays, Sundays after church, and two or three evenings a week.

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(1) Edson L. Whitney, Cooperative Credit Societies (Credit Unions) In America and in Foreign Countries, p. 3. U. S. Department of Labor Statistics Bulletin, No. 314.





Membership:-- The average membership in a Schulze society is approximately 625, although some societies have a membership greater than 10,000.(1) Membership is not limited to any class, although people of the poorest class are not welcome. A large membership is advocated.

In contrast, Raiffeisen societies are generally composed of one class - farmers. These groups exist in the rural parts of the country. There is one society for each parish (400 people), with a small membership, averaging less than 100.(2) A large membership is not desired, for the aim is to keep out ineligibles and to benefit the very poor.

Capital:-- Schulze societies are organized to obtain funds, while Raiffeisen groups are set up to create a condition where outside credit can be obtained at a minimum cost. Schulze societies seldom borrow as they usually supply their needs by other means. Raiffeisen societies, on the other hand, have heavy long-time borrowings from commercial banks willing to loan on the security of the combined credit of the members.

Liability of Members:-- At the beginning Schulze adopted the unlimited liability feature. Since 1889 the law has allowed limited liability, and the majority of the societies since set up have taken advantage of the opportunity which the law provided. The Raiffeisen societies still adhere to the original principle of unlimited liability.

Management:-- The final say in both types of societies rests in all the members at the annual or semi-annual general meeting. At this meeting officers are elected, important questions are discussed, and the bank's general policy is shaped. A member is given but one vote, and proxy voting is banned.

(1) Edson L. Whitney, Cooperative Credit Societies (Credit Unions) In America and in Foreign Countries, p. 4. U. S. Department of Labor Statistics Bulletin, No. 314.

(2) Ibid.





Management of a Schulze Society:-- The management of a Schulze society is centered in an executive committee of three - the manager, the cashier, and the comptroller - who have general control of the bank. They propose persons as new members and carry out the policy decided upon at the annual meeting. These three are not permitted to borrow from the society, their acts being examined every three months by a supervisory committee of nine representing all groups of membership.

The supervisory committee "checks everything that is done, audits accounts, inquires whether proper security was taken in each case, removes members of the executive committee for cause, . . . ., and admits and expels members."(1) The members of this committee serve for three years, one-third retiring each year. Both the executive and supervisory committees are usually paid, the former often on a commission basis.

Management of Raiffeisen Societies:-- Raiffeisen societies are managed by a committee of five elected for four years, two or three retiring every two or three years. This committee has weekly meetings and performs all the executive work. As a rule, the majority are wealthy members who have no need for credit and who make deposits to give the society air of solvency.

These societies also possess a council of supervision, composed of from three to nine members, who are elected for three years, one-third retiring every year. The council holds quarterly meetings and supervises the committee. Under certain circumstances the council of supervision may discharge members of the committee.

The manager of the society oversees the use of loans and attends to any purchasing and selling in which the society may engage. All officials,

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(1) Edson L. Whitney, op. cit., pp. 7-8.





except the accountant or the cashier, serve without pay.

Director - Baltimore

Baltimore

Kind of membership	A large number of members are of the kind who are not active in the work of the organization.	A small number of members are of the kind who are active in the work of the organization.
Number of members	There are about 100 members in the organization.	There are about 100 members in the organization.
Method of raising funds	The funds are raised by the sale of tickets for the annual convention.	The funds are raised by the sale of tickets for the annual convention.
Type of service	The service is of the kind which is given to the members of the organization.	The service is of the kind which is given to the members of the organization.
Source of income	The income is derived from the sale of tickets for the annual convention.	The income is derived from the sale of tickets for the annual convention.
Use of funds	The funds are used for the purpose of maintaining the organization.	The funds are used for the purpose of maintaining the organization.
Other	There are other members of the organization who are not active in the work of the organization.	There are other members of the organization who are not active in the work of the organization.





The following chart is introduced to show the fundamental differences in the Schulze and the Raiffeisen cooperative credit philosophies.

Comparison of Ideas on Cooperative Credit Societies(1)

	Schulze - Delitzsch	Raiffeisen
Size of Membership	A large mixed membership drawn from an unrestricted area.	A small membership of one class limited to an area not containing more than 2,000 inhabitants.
Payment for Services to the Society	Fair salaries and compensation.	Gratuitous service.
Distribution of Profits	Declaration of as large dividends as possible.	No distribution of profits
Type of Banking Business to be Done	The society should do a general banking business on three month's paper.	Only the simplest kinds of transactions and long-time loans running for years if necessary and retirable by instalments.
Purpose of Loans	The use of money not to be watched. (Loans not to be confined to productive purposes.)	Loans for productive purposes only.
Use of Entrance Fees and Shares	Utilization of entrance fees and shares of a great enough size to keep out persons who lacked a few assets or a small income.	Opposed to a capital composed of members' shares and withdrawable at will within a short time. Substituted for this the <u>indivisible reserve</u> , built up from slight increases in the interest rate and prices, and to be used as a guaranty and working fund.
Aims	Purely materialistic	Humanitarian

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(1) Adapted from Rural Credits, p. 287.





### Italy Grasps the Credit Union Idea

The second country to embrace cooperative credit was Italy. A modified Schulze-Delitzsch system was brought to Italy by Luzzatti when he set up his people's banks. Italian rural banks on the Raiffeisen scheme were created by Dr. Leone Wollemborg in 1883. The remainder of this chapter will be devoted to the accomplishments of these two men in the field of cooperative credit.

#### Luigi Luzzatti (1841-1929)

In the period around the year 1860, the Italian cities possessed great banks and adequate loan funds. However, this credit was not available to all of the population. Usury was practiced in loaning to laborers and small farmers.

Luigi Luzzatti was a Venetian Jew who in 1864 travelled to Germany in order to study the operation of the Schulze-Delitzsch people's banks. To eliminate the lack of proper credit facilities mentioned above, he took upon his shoulders the task of instructing Italy in the ways of cooperation. In essaying to transplant the Germany creation, he found it imperative to make certain alterations.

- (1) Schulze for his first bank had decided upon the size of his share by dividing the members' credit needs by the number of members. Funds were to be supplied by the bank itself. Luzzatti attempted to obtain only a guaranty fund and a type of organization which would be trusted by the members.
- (2) The idea of unlimited liability which was then present in the Schulze scheme had no appeal to Italy's small business men. As a result, Luzzatti was forced to set up his bank as a joint stock company.
- (3) Luzzatti believed that the officers of the bank should not be paid, while Schulze advocated reasonable salaries and compensation for officers.

People's Banks Organized by Luzzatti:-- Late in 1864 Luzzatti instituted at Lodi the first people's bank in Italy, the Banca Mutua





Popolare Agricola, which from its institution has been of service to a large group of farmers. In 1866 he set up the Banca Popolare of Milan, which opened on May 25th of that year, after Luzzatti had spent a half year in organizing it. Its initial capital was \$140, of which Luigi contributed \$20. He not only was the largest stockholder but also performed all the clerical work.(1)

In front of the small room which the bank at Milan had rented to serve as an office, Luzzatti, seated at a table on the sidewalk, without pay did all the work of receiving deposits, making payments, loaning money, and keeping books. He was jeered at by his friends who were unable to comprehend why he was doing this. After a year of operation, the bank was well able to stand on its own feet.

In order to secure the credit standing of the corporation Luzzatti decided to have the stockholders pay up their subscriptions as quickly as possible. He issued an ultimatum that all shares must be paid inside of ten months at the latest. This ultimatum made remote the likelihood of large shares. It was fortunate that a large share capital was not needed. However, to assure the bank a large guaranty fund, it was necessary both to encourage stockholders to purchase more than one share whenever possible and to obtain as large a membership as possible.

The Growth of Luzzatti Banks in Italy:-- Luzzatti experienced remarkable success with his Milan bank. His good fortune in this venture aided in the creation of zeal for the new cooperative movement during the years following the Seven Weeks' War. Other banks on the same style began to take form. By 1882 there were 206 such banks, with a total capitalization of \$10,000,000 and a total membership of 114,072. By 1889 there

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(1) D. S. Tucker, The Evolution of People's Banks, p. 212.





were 714 people's banks, with a total capitalization of more than \$20,000,000.(1)

The new commercial code, which went into effect January 1, 1883 and which defined the cooperative association as a legally recognized form of business organization, is regarded as the reason for this growth. Previous to that time the banks were hindered by the fact that they were forced to adopt the legal form of a joint stock corporation. Some of their activities then, although not forbidden by law, were not definitely defined by law as permissible.

Of late, the growth of the movement has progressed more slowly. Joint stock banks and rural cooperative borrowers' associations have the business well in hand. In 1908 Italy possessed 735 people's banks, with a combined membership of 501,022. Their capital and reserves amounted to \$31,132,800, while their deposits totalled \$200,000,000.(2)

#### Leone Wollemborg

Luzzatti and Wollemborg Compared:-- While Luzzatti set up a new kind of people's bank, Wollemborg was more instrumental in the field of rural credits. When Wollemborg started his first rural credit society in Loreggia, a parish near Padua, in 1883, he, like Luzzatti, was warned on all sides of the supposed foolishness of the venture. Both men had much in common, being two famous Jews who had served as Minister of Finance. Without them cooperative credit might never have spread to Italy. While Luzzatti was a disciple of Schulze-Delitzsch, Wollemborg adopted the principles fostered by Raiffeisen.

#### Wollemborg's Loreggia Credit Society:-- With the aid of the

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(1) D. S. Tucker, op. cit., p. 223.

(2) Ibid., p. 225.





parish priest Wollemborg prevailed upon 32 persons to join the society, starting its operation August 13, 1883. Within 18 months the society took in 96 additional members, 16 of whom severed their connections with the group within a short period of time. At the end of four and one-half months the society had received \$1,400 of deposits, \$400 of which was the property of Wollemborg.(1)

Comparison of the Loreggia Bank with the Raiffeisen Type(2):-- In some respects the Loreggia Bank is similar to the Raiffeisen type. However, there are a few major differences between the two. The Loreggia Bank does not purchase or sell supplies; it offers short-term renewable credit, instead of long-term loans recallable on four weeks' notice; its entrance fees are small; it possesses an extra body, the committee of control, as an administrative organ, and it has a more numerous committee of management.

#### Line of Historical Procedure After Germany and Italy

Austria in 1885 was the first country after Germany and Italy to take up cooperative credit. 1892 marked the birth of cooperative banking in France. Ireland, under the guidance of Sir Horace Plunkett, in 1923 possessed more than 200 cooperative credit societies.(3) Russia, India, and Japan have credit unions to-day.

However, we are not so much concerned with this later development as we are with establishing the link between Germany and Italy, and North America. The next chapter will therefore be devoted to a description of the early development of cooperative credit societies in North America.

(1) Myron T. Herrick and R. Ingalls, Rural Credits - Land and Cooperative, p. 354.

(2) This comparison holds only for banks in operation prior to the Hitler and Mussolini regimes. It is unlikely that these men encourage cooperative activities.

(3) Roy F. Bergengren, Cooperative Banking - A Credit Union Book, p. 50.





### CHAPTER III

#### BEGINNINGS OF CREDIT UNIONISM IN NORTH AMERICA

##### Canada Gives the Movement Impetus

##### Alphonse Desjardins (1854-1921)

Alphonse Desjardins was born at Levis, Province of Quebec, in 1854. Upon his graduation from Levis College in 1870, he became a journalist. Around 1885, the problem of usury attracted his attention. Law-suits in and about Montreal had brought to his attention the fact that poor borrowers were being charged extremely excessive interest rates, as a rule several hundred per cent, for petty loans.

Desjardins decided to make a study of the problem, with an aim to discover the solution of it. His attention turned toward Germany and Italy.

After fifteen years of diligent study, now sure that his theoretical knowledge of the operation of cooperative credit agencies abroad was adequate, he started the new system in Canada. In this he felt the influence of both Raiffeisen and Schulze-Delitzsch greatly. He inaugurated his first people's bank in his home city of Levis, on December 6, 1900, the first instalment paid being a dime and the first collection amounting to only \$26.(1)

For seven years Desjardins scrutinized the operations of his first little bank. In that time it had amassed \$80,000 in resources, and had effected 2,900 loans to its members which amounted in volume to \$350,000. The average loan for this seven year period was \$120, while the

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(1) Roy F. Bergengren, Cooperative Banking - A Credit Union Book, p. 51.





average interest rate was  $6\frac{1}{2}$  per cent. During all that time the bank had not experienced a single loss.(1) From this Desjardins came to the conclusion that cooperative banking was workable in Canada.

Desjardins was properly called the Raiffeisen of Quebec. Receiving from the clergy all the help that it could give him, he travelled from one end of the province to the other devoting his life to the organization of cooperative people's banks. He set up his little banks among farmers, wage earners, fishermen in villages, and among those persons opening up a new region of the country for human habitation. An example of this last type is the bank in existence at Thetford Mines, which has proved highly successful, being composed for the most part of miners.

#### Development of People's Banks in Quebec

Twelve years after its inauguration Desjardins' first people's bank possessed resources of \$188,306 and had loaned about a million dollars. This bank now has resources of more than \$1,303,927.(2)

The early development of Desjardins' banks was very slow. It was not until after the World War that the movement became active. In 1929 there were 178 banks possessing a membership of 44,835. Loans granted during the year totalled 17,994 in number and \$4,249,650 in amount. At the end of the year these banks possessed total assets of \$11,463,557, a capital stock of \$1,850,542, and reserves, surplus and provident funds of \$960,667.(3)

In 1933, when the number of these banks approximated 200, they possessed a membership of 36,500, of whom 10,800 were borrowers. In that

(1) Louis D. Brandeis, Other People's Money, p. 220.

(2) Roy F. Bergengren, C U N A Emerges, p. 15.

(3) "Cooperative People's Banks of Quebec", Monthly Labor Review. (May, 1931) p. 1141-2.





year 11,400 loans were granted, the total amount of loans being \$1,682,500, with an average loan of approximately \$150.(1)

### The Bridge is Supplied

#### La Caisse Populaire Ste. Marie of Manchester, New Hampshire

The first credit union in the United States was formed in a Catholic parish in Manchester, New Hampshire in 1909. The formation was largely the work of Alphonse Desjardins, who was aided by Monsignor Pierre Hevey, pastor of the parish. Since New Hampshire possessed no credit union law at that time, it was necessary to have the state legislature pass a special act to legalize the organization.

This credit union constituted the bridge between the Canadian system and ours. Needless to say, it adheres closely to the plan of organization of the other Desjardins banks. In 1931, La Caisse Populaire Ste. Marie was the second largest credit union in the United States, possessing over \$1,500,000 of assets and a membership of almost 4,000.(2)

#### The First General Credit Union Law in Massachusetts in 1909

Massachusetts in 1909 was the first state to enact a general law authorizing the organization of credit unions. The name "credit union" was used for the first time in the Massachusetts law as a synonym for co-operative people's banks of the Raiffeisen, Schulze-Delitzsch and Desjardins varieties.

In presenting his report to the Legislature for the year 1908, Pierre Jay, who was then Bank Commissioner of Massachusetts, brought up the question as to whether or not "it would be wise to provide by law some form of organization through which persons of moderate means might associate

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(1) M. R. Neifeld, Cooperative Consumer Credit, pp. 22-3.

(2) E. Schmiedeler, "Cooperative Credit", Commonweal. (July 24, 1936) p. 321.





themselves . . . ., after the manner of the credit unions and peoples banks of the European countries, India and Canada."(1) He stated in his report that he recommended the enactment of a law which would legitimize the organization in Massachusetts of cooperative credit agencies similar to those in Canada.

#### The Work of Edward A. Filene in the Massachusetts Enactment

The late Edward A. Filene, often called the Raiffeisen of the United States, took a trip abroad in 1908. While on his sojourn, he saw cooperative people's banks in operation on the continent, in India and in Egypt. Upon his return to this country, in cooperation with Pierre Jay, Filene labored strenuously for the enactment of the Massachusetts law. Desjardins on invitation came to Boston to help not only in the drawing up of the first draft of the credit union law, but also in its presentation before the Committee of the Legislature to which it was referred. The result was the enactment of Chapter 419 of the Acts of 1909, providing for the incorporation of credit unions.

#### The Early History of Massachusetts Credit Unions

The oldest existing credit union in Massachusetts is the Ste. Jean Baptiste Credit Union at Lynn, which was organized in September, 1910. The oldest credit union in Boston is the Industrial Credit Union, formed in November, 1910.

The necessity of providing a lending service at low interest rates to check the rampant loan shark abuses, arose after the panic of 1908. While the law passed in 1908 legalized the establishment of credit unions under state supervision, it was necessary to educate the people as to how the law could be used. During the first few years, credit unions did not

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(1) Roy F. Bergengren, op. cit., p. 54.





grow as fast as was expected. There were for example, only 34 credit unions in Massachusetts in 1913. In 1914 the number rose to 50.(1) This slow early growth in Massachusetts was a parallel to Germany's early development.

#### The Massachusetts Credit Union

1914 also marked the organization of the Massachusetts Credit Union. Felix Vorenberg was elected President, while Edward A. Filene was chosen one of its three Vice-Presidents. While this body took the form of a credit union, it solicited donations from individuals and spent these gifts to extend the growth of credit unions, and to deal the loan shark a death blow.

On May 22, 1916, the Massachusetts Credit Union started its annual drive for funds to eliminate usury by instituting a campaign to raise \$50,000. Since the scope of the Union was limited by banking laws, it became necessary to change the form of organization. As a result, the Massachusetts Credit Union Association was created by a Special Act of the Legislature to take the place of the Union.

#### The Massachusetts Credit Union Association

Among the first officers of the Association were Felix Vorenberg and Edward A. Filene, who served as President and First Vice-President respectively. In 1919 the State Association proceeded to build up a capable staff, first using Miss Frances P. Habern, and a few months later employing Roy F. Bergengren as an organizer.

By 1920, the number of credit unions had grown to 65, with total resources of almost \$4,000,000.(2) This proved to be adequate for the credit unions to operate and finance most of the work of the State League themselves. As a result, the Massachusetts Credit Union Association was disbanded.

(1) Roy F. Bergengren, op. cit., p. 75.

(2) Ibid.





### The Credit Union National Extension Bureau(1)

Edward A. Filene was not satisfied to have credit union development in Massachusetts alone. He desired to have the movement a national one. For this reason he founded the Credit Union National Extension Bureau, spending almost a million dollars of his own money to make the plan workable and hiring Roy F. Bergengren to carry out his plans.

### The Credit Union League of Massachusetts

A meeting at the Boston City Club in 1920, which had as its purpose the organization of a Credit Union Bank Association, resulted in the preliminary beginning of the Credit Union League of Massachusetts. Almost a year later, the Credit Union League came into being at a delegates' meeting held at the Norton Boat Club in Worcester. During the period from 1927-1929, the League expanded its services to include cooperative buying of commodities when the price at retail seemed fixed and out of proportion to cost.

### The Massachusetts Law

The Credit Union Law in Massachusetts was enacted by the State Legislature in 1909, its features being included in Chapter 419 of the Acts of 1909. This law has remained fundamentally the same, although amendments were made in 1914, 1915, 1920, 1921 and 1925. Additional amendments were also made in 1926, and in the 1930's.

Provisions of the Massachusetts Law To-day(2):-- Although this is not a complete treatment of the law in effect to-day, there are certain outstanding provisions which I believe should be discussed at this point.

(1) For additional material on the Credit Union National Extension Bureau see page 77.

(2) The material here presented has been taken from Credit Unions, pp. 23-33. Statutes of the Commonwealth of Massachusetts. Office of the Commissioner of Banks.





These provisions have to do with the management, investment of funds, voting, loans, the reserve fund, and dividends. The same order of procedure will be followed in regard to the other state laws treated in this chapter.

General Considerations:-- Twenty or more residents of Massachusetts may form a credit union under the law. Deposits are to be received from members only. A voluntary dissolution is permissible only after a two-thirds vote of the members at a special meeting. The value of a share is \$5.

Management:-- As a rule, a credit union may have not less than 11 directors, a credit committee of not less than 3, and an auditing committee of 3, elected by and from the directors. The officers are to be the president, one or more vice-presidents, the clerk, and the treasurer, elected by and from the directors. Only the officers may receive compensation for their services.

Investment of Funds:-- Credit unions chartered under the Massachusetts law may invest funds not needed for loans in securities legal for savings bank investments or in shares of building and loan associations of the State. At least 5 per cent of the total assets must be in cash or in investments legal for savings banks. If the last provision is not adhered to, no more loans may be made until the ratio of 5 per cent is re-established.

Voting:-- Each member is entitled to only one vote, but only after three months' membership. Minors under eighteen years of age are denied voting privileges. Voting by proxy, except in restricted cases, is prohibited.

Loans:-- Loans are to be extended to members only, and then only for productive purposes. Such loans must be unanimously approved by a quorum of two-thirds of the credit committee. Preference must be given





to personal loans, and to smaller loans when there is an insufficiency of funds to cover all those approved.

Maximum Amount of Loans - Personal Loans:-- Personal loans may range in amount from \$100 to \$3,000, depending upon the amount and quality of the security offered. An assignment of wages is acceptable as collateral for any loan not exceeding \$250.

Maximum Amount of Loans - Real Estate Mortgage Loans:-- The total amount which can be loaned to any one member is \$8,000 or 5 per cent of the assets of the credit union. In no case may the amount of the loan exceed 60 per cent of the value of the property mortgaged.

The amount which credit unions may loan on mortgages is limited to 70 per cent (and in credit unions with less than \$75,000 in assets, 50 per cent) of the sum of the shares, deposits and guaranty fund.

Reserve (Guaranty) Fund:-- The reserve fund shall be composed of all entrance fees, plus 10 per cent of the gross income each year until the fund equals 15 per cent of the assets, and thereafter enough to maintain it at that figure. If losses and bad debts exceed 20 per cent of the guaranty fund, a special reserve equal to the amount of the excess must be provided.

Dividends:-- Dividends are payable annually or semi-annually, according to the by-laws, on all fully paid shares outstanding. Dividends are to be limited to 8 per cent until the guaranty fund equals 15 per cent of the total assets.

Summary of Credit Union Development in Massachusetts:-- Massachusetts will always be regarded as the pioneer credit union state, because of the fact that it was the first state to enact a credit union law. For twenty-five years it was the home of the central agency for credit union organization and has always done the largest credit union business.





However, Massachusetts has not confined its loans to the kind most usual in credit unions. The average credit union makes consumptive loans of small amounts. Massachusetts and one or two other states, in deviating from this general practice, have in time branched out to invest their surplus funds in real estate loans of large amounts. This may be perceived when we examine the average loan. In 1933 the average loan in Massachusetts ranked in size with that of the credit unions of New Hampshire and New York above those of all the other states combined.(1)

As of December 31, 1937 there were 367 state credit unions in Massachusetts, which constituted an increase of 31 over 1936. Almost \$13,000,000 of the total assets of \$18,947,748.21 was represented by loans, both personal and real estate, approximately five-sixths of the loans being of the former type. Total assets had increased \$2,448,143.30 over those for December 31, 1936, personal loans having increased \$1,888,059.93 and real estate loans \$317,395.73.(2)

The figures for December 31, 1937 showed an increase of \$2,153,518.41 in share capital over the preceding year. Deposits, on the other hand, experienced no such marked appreciation.(3)

#### Other States Participating in the Early Development in the United States

In 1913 New York enacted a credit union law, as did North Carolina in 1915. The laws passed in Texas and Wisconsin in 1913, in Oregon, South Carolina and Utah in 1915, and in Nebraska in 1919 were so defective in their terms that these states contributed practically nothing to the early development of credit unions in this country. Rhode Island's

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(1) M. R. Neifeld, Cooperative Consumer Credit, p. 36.

(2) Annual Report of the Commissioner of Banks for the Year Ending December 31, 1937, p. VII. The Commonwealth of Massachusetts.

(3) Ibid.





law passed in 1914 aided to some extent the early development in that state. It is therefore appropos to consider in detail at this point the growth of credit unions in New York, North Carolina, and Rhode Island only.

#### The Enactment of the New York Law

Alphonse Desjardins was almost as great a factor in the development of cooperative banking in New York as he had been in New Hampshire and Massachusetts. In 1909 or 1910 he visited New York to spur on the passage of the credit union bill.

About that time Arthur H. Ham was connected with the Russell Sage Foundation. In collaboration with Leonard G. Robinson, who had set up credit unions among Jewish farmers in the state, and Pierre Jay, Ham discussed on different occasions the possibility of credit union legislation. The aid of David J. Gallert was obtained in drafting the bill, both the Massachusetts law and La Caisse Populaire being referred to as models.

Before the enactment it was learned that State Senator Franklin D. Roosevelt had brought up a similar bill, which pertained only to rural credit unions. Senator Roosevelt graciously consented to withdraw his bill in favor of the one advocated by the Foundation. The bill was finally approved during the 1913 session of the Legislature.

#### The Organization Work of the Russell Sage Foundation

The Russell Sage Foundation has aided in the organization of New York credit unions, drafting and furnishing forms at cost, and encouraging the formation of associations of credit unions in the state. It has also been helpful through the printing of credit union books and the general distribution of credit union data.

The Foundation has proved to be the main organizing force in New York. It was fortunate that there was such an organization in existence there during the early stage of credit union development, as New York





possessed no Raiffeisen, no Desjardins, or no Filene.

### The Early Development of Credit Unions in New York State

Roy F. Bergengren in his first credit union book presented the following statistics on the development in New York from 1915 to 1921:

<u>Date</u>	<u>Number of Credit Unions</u>	<u>Total Assets(1)</u>
1915	17	\$ 68,777.76
1917	39	465,367.00
1919	49	568,034.00
1920	68	2,303,871.00
1921	82	4,445,297.00

The above statistics show the remarkable growth of credit unions in New York within a relatively short period of six years. Within that time total assets had increased almost \$4,400,000. Growth was most rapid in 1920 and 1921, for within these two years total assets had increased almost \$3,880,000. There was a marked increase in the number of credit unions in each of the six years.

### New York City's Early Credit Unions

Many of New York City's early credit unions were racial in character, lacking clear lines of demarcation as regards membership make-up. Many of them charged interest rates which, when compared with ordinary bank interest rates, seemed out of line with real credit union purposes. This irregular procedure was adopted to bring about large earnings which could be used to pay large dividends.

### The New York Law

The Credit Union Law in New York was adopted in 1914, its features being covered in articles 450-479, which articles were included in Chapter 369 of the Acts of 1914. The law was subsequently amended in 1915, 1923, 1929 and throughout the 1930's.

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(1) Roy F. Bergengren, Cooperative Banking - A Credit Union Book, pp. 84-5.





## Provisions of the New York Law To-day(1)

General Considerations:-- In contrast to the Massachusetts law, the New York law requires only seven or more persons residing or employed in the state for the formation of a credit union. As in Massachusetts, deposits are to be received from members only. The value of a share may go as high as \$25, which permits a much larger share value than does Massachusetts.

Management:-- The New York law permits the number of directors to be much smaller than the Massachusetts law allows. In the former state the number of directors may be as few as five.

The New York law also provides for a credit and a supervisory committee of not less than three members each. The manager is the only officer who may receive compensation for his services without any restrictions.

Voting:-- Each member is entitled to only one vote. Voting by proxy is prohibited.

Loans:-- Loans are given to members only. Loans must be unanimously approved by a majority of the credit committee. The maximum amount of an unsecured loan is \$50, while for a secured loan the amount may be equal to the borrower's shares and deposits.

Loans are not to be granted to nonmembers. Any officer, director, or committee member who knowingly permits a loan to a nonmember is guilty of a misdemeanor and is liable to the credit union for the amount of the loan.

Interest on loans is not to exceed one per cent a month, or 5.9 per cent per annum if deducted in advance. The total amount of loans on

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(1) The material to be presented has been taken from Credit Unions, pp. 3-23. Bulletin No. 6. New York State Banking Department, 1938.





real estate mortgages may not exceed 20 per cent of the credit union's capital and deposits. This latter provision is in sharp contrast to the Massachusetts law which permits real estate mortgage loans to range from 50 to 70 per cent of the sum of the shares, deposits and guaranty fund.

Reserve (Guaranty) Fund:-- In New York State the reserve fund shall consist of all entrance and transfer fees, and fines, plus 10 per cent of net earnings each year. This fund must never exceed the amount of the capital plus 50 per cent of the other liabilities. At least one-half of the fund must be invested in securities legal for savings banks, or kept on deposit in savings banks operating under the laws of the state.

Dividends:-- Dividends are payable annually on all fully paid shares of stock. However, no dividend may be declared by the directors of any credit union which has an impairment of its capital.

#### The Condition of Credit Unions in New York, December 31, 1937

As of December 31, 1937 there were 154 state credit unions reporting, an increase of 9 over 1936. Total assets as of this date were \$10,829,518, as compared with \$9,250,088 for 1936. In 1937 approximately 75 per cent of the assets was composed of loans to members.(1)

During 1937 10 new credit unions were authorized by the State Banking Department. In that year there were 4 voluntary liquidations and 1 involuntary liquidation.(2)

The largest credit union in the State is the Municipal Credit Union of New York City. Its total assets as of December 31, 1937 were \$3,298,127.13, approximately two-thirds of which were represented by loans

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(1) Annual Report of the Superintendent of Banks Relative to Savings and Loan Associations, Savings and Loan Bank of the State of New York and Credit Unions For the Year 1937, p. 20.

(2) Ibid., p. 12.





to members. It possessed 10,863 borrowing members and 6,885 non-borrowing members during that year. The total amount of shares held was \$2,287,535. Organized in 1916, it constitutes one of the oldest and most thriving credit unions in New York State.(1)

#### The Development of Credit Unions in North Carolina

North Carolina is the third state to be treated in this section on the early development of credit unions in the United States. While the development in Massachusetts and New York was along the lines of urban credit unions, North Carolina was the pioneer state in the field of rural credit unions.

Distinctions Between Rural and Urban Credit Unions:-- The Raiffeisen rural credit unions place no emphasis on dividends to members, as is the case with the North Carolina credit unions. On the other hand, the Schulze-Delitzsch credit unions place some stress upon dividends, which is practically what the credit unions in Massachusetts and New York do.

A second distinction is found in the fact that, although urban credit unions are invested with the power to borrow, they do not exercise this power to any great extent, due to the fact that they possess a large membership and large resources. In contrast, rural credit unions, having a much smaller membership and much smaller resources than the urban groups, do borrow.

Finally, rural credit union accept deposits from nonmembers, which is the case in North Carolina, where the law permits outside financial aid. On the other hand, the law in Massachusetts prohibits the receipt of deposits from outsiders, due to the fact that urban credit unions generally

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(1) Annual Report of the Superintendent of Banks Relative to Savings and Loan Associations, Savings and Loan Banks of the State of New York and Credit Unions for The Year 1937, p. 311.





possess more funds than are necessary for loans to members.

The Work of John Sprunt Hill:-- In 1912 President Taft invited the governors of the various states to a conference at the White House for a discussion of agricultural credit. For some time previous to this, the State Department, through its diplomatic representatives in Europe, had been investigating the agricultural credit system in force in certain European countries. Myron T. Herrick, who at the time was serving as Ambassador to France, manifested a deep interest in the problem and was one of the chief advocates of the conference.

The year 1913 marked the appointment of the American Commission to investigate Rural Credit Agencies, which was composed of about one hundred representative persons from the American Union and from six provinces of Canada. John Sprunt Hill, a banker of Durham, North Carolina, was one of the representatives of his state on the Commission. He spoke of the Commission's work at a meeting of the North Carolina Conference for Social Service, at Raleigh, January 23, 1917. In his speech he stated that the main purpose of the American Commission's visit to European countries was "to find Raiffeisen".(1)

When Mr. Hill came back to the United States, he urged the bringing of Raiffeisen's principles to North Carolina. How well he succeeded in his effort to introduce cooperative credit in North Carolina is brought out in the following quotation from a pamphlet devoted to his life and work:

"Largely through his (Hill's) efforts the Legislature of North Carolina, in 1915, unanimously passed the Credit Union Act which was drafted almost entirely by him, and which sets forth a complete and workable plan for bringing the great blessings of short-term credit at low rates of interest, to the doors of the small farmers of North Carolina. The wisdom of the legislative act, which has been pronounced 'one of the greatest pieces of

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(1) Roy F. Bergengren, op. cit., p. 56.





constructive legislation ever enacted in North Carolina,' has already been fully demonstrated. Just a few months after the passage of the Act, the first Credit Union, under the personal supervision of John Sprunt Hill, was established at Lowe's Grove, Durham County. Although several states had previously passed Rural Credits legislation, they proved dead letters and no real Credit Unions, for the benefits of the farmers of a neighborhood, were established in this country under legislative act until the organization of the Lowe's Grove Credit Union under the Credit Union Law of North Carolina. In rapid succession other Credit Unions have been established in other parts of the State, all of which have demonstrated their tremendous influence. . . . .

"The inspiration that brought about the establishment of these Credit Unions, and a great deal of the actual work of organizing and starting them off for business can be traced directly to the great unselfish work of John Sprunt Hill who has already been justly named the 'Father of Rural Credits in North Carolina'."(1)

The North Carolina Law:-- The North Carolina Law was enacted in 1915, being included in Chapter 115 of the Public Laws of 1915. It was subsequently amended in 1925 and again in 1935. In North Carolina credit unions practice the cooperative purchasing of fertilizers, feedstuff and seeds. Money is loaned by the associations to members so that the latter can buy farm improvements and equipment.

There was a need for a credit union law in North Carolina due to the then prevalent crop lien system under which small farmers were charged exorbitant interest rates. It was felt that if small farmers were able to purchase at wholesale for cash, the saving which would be realized would cause farming to be looked upon as an attractive proposition. Proponents of the law in North Carolina were convinced that the credit union was capable of solving the problems of tenant farmers.

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(1) E. C. Branson, John Sprunt Hill, pp. 7-8. Reprinted by Permission From the Biographical History of North Carolina.





## Provisions of the North Carolina Law Today(1)

General Considerations:-- The North Carolina law is identical with that in New York in regard to the number who may organize a credit union. The requirement that the value of a share must not exceed \$25.00 is also the same for both states. However, there is a fundamental difference in regard to the receipt of deposits. In New York (and in Massachusetts) deposits may be received from members only. In North Carolina the law permits credit unions to receive deposits from non-members as well as members.

Management:-- In North Carolina the management of the individual credit union is vested in a board of directors of not less than 5 members, and in a credit committee and a supervisory committee of not less than 3 members each. No director or committee member may receive any compensation for his services, but officers may receive such compensation as is authorized by the members. The management set-up in North Carolina follows closely that of New York State.

Investment of Funds:-- Credit unions may invest not more than 10 per cent of the capital stock and the reserve fund in the stock of other local credit unions and not more than 25 per cent of their capital stock and reserve fund in the stock of a central association.

Voting:-- In conformance with the general practice among credit unions, each member is allowed only one vote in North Carolina. However, North Carolina differs sharply from both Massachusetts and New York in this respect - while the latter two prohibit proxy voting, the former sanctions a written proxy in case of sickness or other unavoidable absence.

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(1) The material to be presented has been taken from Credit Union Law, Sub-Chapter III of Chapter 93, Consolidated Statutes of North Carolina as Amended by Subsequent Legislation, pp. 1-9.





Loans:-- Loans are extended to members only, after being unanimously approved by at least a majority of the credit committee. The maximum amount of an unsecured loan is \$50.00, while an indorsed note may be accepted as the basis of security for a secured loan. Interest on loans may not exceed the legal rate. Installment loans to members who need funds with which to buy necessary supplies for growing crops are permitted.

Reserve (Guaranty) Fund:-- The North Carolina law provides that the reserve fund shall consist of all entrance and transfer fees, and fines, plus 25 per cent of the net earnings each year. The reserve shall never exceed the capital plus 50 per cent of the other liabilities.

Dividends:-- Dividends are payable annually, at a rate not to exceed 6 per cent, on all fully paid shares outstanding. Shares which become fully paid during the year shall be given a proportional part of such dividends calculated from the first day of the month following such payment in full.

The Condition of North Carolina Credit Unions on June 30, 1938(1):--

The largest credit union in North Carolina is the Enka Credit Union which was chartered in 1933 and which now possesses a membership of 1,843 and total assets of \$132,838.35. The Valdese Credit Union which was chartered in 1917 presents a peculiar situation. Although it had a membership of only 154 as at June 30, 1930, it ranked second in total assets, which amounted to \$113,521.63. It is the oldest existing credit union in the state, which fact most likely accounts for its wealth of assets.

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(1) The Statistics to be presented are from a table compiled by the Credit Union Division of the North Carolina Department of Agriculture.





Credit Unions Chartered by the State of North Carolina(1)

Comparison of Reports of Operation

Date of Report	No. of Credit Unions Reporting	No. of Members	Share Balance	Deposits Balance	Reserve Balance	Undivided Profits Balance	Total Resources	Loans Outstanding		Loans Made Since Organization		Dividende	
								No.	Amount	No.	Amount	Rate (%)	Amount
Dec. 31, 1936	66	7,441	\$367,000.96	\$173,981.63	\$37,314.07	\$33,207.60	\$612,414.84	4,727	\$494,019.49	37,344	\$3,635,806.06	6	\$9,669.29
June 30, 1937	65	8,534	460,560.16	198,254.03	37,343.73	36,690.63	733,480.31	5,142	634,456.69	40,917	4,323,420.59	not stated	11,103.71
Dec. 31, 1937	63	9,977	523,580.83	200,170.20	42,273.63	40,631.76	837,828.78	6,169	698,968.61	44,636	4,948,068.79	not etated	not stated
June 30, 1938	78	12,343	585,900.87	216,464.43	48,946.11	46,615.94	921,548.99	7,471	781,533.72	51,282	5,863,366.66	not stated	not stated

The above statistics show the most recent development of credit unions in North Carolina. The figures connote the fact that the societies are increasing not only in number but also in size. They show that credit unions in North Carolina are building up their resources, reserves, and share balances, at the same time expanding their loan facilities.

From the above statistics we may garner that credit unions in North Carolina are in a healthy state, and that the law has encouraged their establishment and operation.

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(1) Based on statistics compiled by the Credit Union Division of the North Carolina Department of Agriculture.





## The Development of Credit Unions in Rhode Island

Rhode Island's Early Credit Unions:-- Rhode Island is the fourth and final state to be treated in this chapter on the early development of credit unions in North America. This State's credit union law was enacted in 1914. The year 1915 marked the beginning of its first credit union, the Credit Union Central Falls.

The Credit Union Central Falls first started in a club, and then spread to the parochial schools of the community. The club members and the school children induced older people to open accounts in the union. In 1916 it possessed assets of \$22,105.35, which by 1922 had grown to \$683,974.58.(1)

Until 1920 the Credit Union Central Falls was the only cooperative credit society in Rhode Island. In 1920 the credit union of the New England Telephone and Telegraph Company workers was formed in Providence. On February 22, 1922 a credit union was organized among the employees of the United States Torpedo Station at Newport to provide an avenue of escape from the burdensome charges of the installment houses.

Provisions of the Rhode Island Law To-day(2):-- The credit union law in Rhode Island was enacted by the State Legislature in 1914, being included in Chapter 1103 of the Public Laws of 1914. The law was subsequently amended in 1919, 1932 and 1938.

General Considerations:-- Five or more citizens of Rhode Island may form a credit union under the law. Deposits are to be received from members only. Voluntary dissolution is permissible only after unanimous recommendation of the board of directors and a vote of a special

(1) Roy F. Bergengren, Cooperative Banking - A Credit Union Book, p. 86.

(2) The material to be presented has been taken from Chapter 267 of the Laws of Rhode Island.





meeting at which at least two-thirds of the members are present, provided not more than 10 persons object. The par value of the shares of capital stock is to be prescribed in the by-laws of the credit union.

Management:-- The number of directors must be some multiple of 3; the credit committee must consist of at least 3 members, while the number of supervisory committee members is definitely fixed at 3. The officers are to be the president, the vice-president, the clerk, and the treasurer elected by and from the directors. The directors also have the power to elect a finance and an executive committee, and may delegate to such committees such of their powers as they may deem expedient. Directors and members of the supervisory committee are to receive no pay, but officers and members of the credit committee may receive such compensation as the directors may authorize.

Investment of Funds:-- Not more than one-third of the capital, deposits and reserve may be in investments legal for savings banks.

Voting:-- Each member is entitled to one vote, but after the credit union has been in existence one year, no one shall vote until he has been a member for more than three months. Voting by proxy is prohibited.

Loans:-- Loans are to be made to members only, and then only for provident purposes. Loans must be unanimously approved by the members of the credit committee present. Loans to and indorsements by committee members are prohibited.

Reserve (Guaranty) Fund:-- The Rhode Island law requires that the reserve fund shall consist of all entrance fees, plus 20 per cent of net earnings each year until the fund equals the amount of the paid-in capital





Dividends:-- Dividends are payable annually on all fully paid shares outstanding.

The Extent of the Rhode Island Development:-- The Rhode Island development has been slow in comparison with that experienced by Massachusetts and New York. The total assets of all credit unions chartered under the Rhode Island law amounted to only \$2,713,591.85 on December 31, 1937.(1) However, we must not lose sight of the fact that Rhode Island is the smallest state in area, and ranks about 38th in population.

Approximately 50 per cent of the assets of Rhode Island's state credit unions are represented by loans on real estate.(2) To my mind, this percentage is much too high. In keeping with good credit union practice, most of the loans should be extended for the purpose of helping members meet their short-term credit needs.

There are only 14 credit unions in Rhode Island to-day. The largest is the Credit Union Central Falls, with total assets of \$1,316,692.11, and a membership of 3,458 on December 31, 1937.(3) The People's Credit Union ranks second with total assets of \$722,228.47, while the Telephone Workers' Credit Union ranks third.(4)

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(1) These statistics were obtained from the Thirty-First Annual Report of the Bureau of Banking, Division of Banking and Insurance, p. 155. State of Rhode Island and Providence Plantations.

(2) Ibid.

(3) Ibid., p. 112.

(4) Ibid., pp. 118, 121.





## CHAPTER IV

## LATER DEVELOPMENT IN THE UNITED STATES

Later Development in the United States

In the preceding chapter we noted the fact that ten states had passed credit union laws between 1909 and 1921. We also observed that only four of these ten states (Massachusetts, New York, North Carolina and Rhode Island) had enacted effective laws. It is now our aim to treat in this chapter the development of state credit unions from 1921 to the present time.

At the present time there are 41 state credit union laws, in addition to the District of Columbia and the Federal laws. The schedule shown below lists the various laws in chronological order:

1. Massachusetts	1909	14. Indiana	1923
2. New York	1913	15. Tennessee	1923
3. Texas	1913	16. Louisiana	1924
4. Wisconsin	1913	17. Mississippi	1924
5. Rhode Island	1914	18. New Jersey	1924
6. North Carolina	1915	19. Georgia	1925
7. Oregon	1915	20. Illinois	1925
8. South Carolina	1915	21. Iowa	1925
9. Utah	1915	22. Michigan	1925
10. Nebraska	1919	23. Minnesota	1925
11. New Hampshire	1921	24. West Virginia	1925
12. Virginia	1921	25. Alabama	1927
13. Kentucky	1922	26. California	1927





27. Missouri	1927	35. Ohio	1931
28. Arizona	1929	36. District of Columbia	1932
29. Florida	1929	37. Oklahoma	1933
30. Kansas	1929	38. Pennsylvania	1933
31. Maryland	1929	39. Washington	1933
32. Montana	1929	40. The Federal Law	1934
33. Arkansas	1931	41. Idaho	1935
34. Colorado	1931	42. North Dakota	1935
		43. South Dakota	1935

Only seven states lack credit union laws to-day. They are: Connecticut, Delaware, Maine, Nevada, New Mexico, Vermont, and Wyoming. However, the passage of the Federal credit union law (to be treated in the next chapter) makes possible the organization of credit unions even in these seven states.

#### Credit Union Development from 1921 to the Present

As may be seen by reference to the foregoing schedule, from 1921 to the present time 31 states, the District of Columbia, and the Federal government have enacted credit union laws. A thorough analysis of the 31 state laws and the District law is, to my mind, unnecessary for the simple reasons that most of the state laws drawn up from 1921 on are patterned after the laws that we discussed in the previous chapter. The Massachusetts law in particular has served as a model for states contemplating the enactment of credit union laws. It may be shown that even the model credit union law adheres closely to the Bay State law. It is therefore appropos to consider these more recent enactments only in the light of their contribution to the development of state credit unions, which development will be evidenced along the lines of total assets, total membership, total loans, et cetera.





At the time of the organization of the Credit Union National Extension Bureau in 1921, there were credit union laws in effective operation in three states: Massachusetts, New York, and North Carolina. Rhode Island which also possessed a good law had only one credit union in operation at that time, while New Hampshire's sole credit union was functioning under a Special Act of the Legislature. Massachusetts (at the time of the Bureau's formation) possessed 82 credit unions, New York the same number, and North Carolina 33, which, with the two in Rhode Island and New Hampshire, created a grand total of 199. These 199 credit unions possessed a total membership of 72,310 and total assets of \$10,084,862.(1)

By 1929 there were 974 credit unions in the United States, 838 of which furnished reports. These 838 cooperative credit societies had a total membership of 264,908 and total resources of \$35,162,637. At that time there were 32 state credit union laws, only 28 of which had been in operation more than one year.(2)

By a comparison of the above statistics with those given in the preceding paragraph, it may be seen that there was an increase of 775 credit unions between 1921 and 1929. The increase in total membership was more than 192,598, while total assets had appreciated more than \$25,077,775. This shows that the expansion period was taking place.

From 1925 to 1929, 552 credit unions had been formed, 282 of these being in states having just passed credit union laws. Previous to this time, most of the new credit unions had been confined to Massachusetts and New York.(3)

(1) Roy F. Bergengren, Credit Union - A Cooperative Banking Book, p. 155.

(2) "Credit Union Movement in the United States in 1929", Monthly Labor Review (November, 1930) p. 1055.

(3) Ibid., pp. 1046-7.





On the basis of data received from only 20 of the 32 states having credit union laws at the end of 1929, the following statistics are reported by the Monthly Labor Review for the year 1931:(1)

Number of credit unions	1,057
Number of members	268,381
Share capital	\$ 15,317,442
Guaranty fund	\$ 2,049,823
Total resources	\$ 23,645,343

In 1931 Massachusetts possessed the largest number of credit unions, 302; New York ranked second with 113, and Illinois was third with 92. The order was identical in regard to the number of members. However, Rhode Island displaced Illinois in ranking in regard to total resources, the former having total resources of \$1,949,154 as compared with the latter's \$1,198,173.(2)

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(1) "Development of Cooperative Credit Societies in 1931." Monthly Labor Review (September, 1932), p. 560.

(2) Ibid.





The following table shows the comparative development of State Credit unions from 1929 to 1935:(1)

Item	1929	1932	1933	1934	1935
Number of societies reported for Membership:					
Total	838	1,472	1,772	2,028	2,589
Average per society	264,908 320	301,119 216	359,646 215	427,097 234	597,609 245
Share Capital:					
Amount	\$24,065,407	\$21,708,328	\$22,457,861	\$26,285,497	\$34,882,647
Average per member	92	70	62	58	56
Reserves and guaranty fund	2,079,450	2,110,815	2,372,711	2,618,587	3,002,470
Loans during year:					
Total	24,548,353	16,375,952	28,217,457	29,580,084	24,173,061
Average per society	58,310	16,475	28,811	21,310	18,095
Average per loan	350	156	138	177	142
Loans outstanding at end of year	30,811,582	24,826,291	26,391,683	28,033,581	35,400,200

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(1) "Operations of Cooperative Credit Societies in 1935". Monthly Labor Review (December, 1936) p. 1426.





According to the chart on the preceding page, the number of societies reported for in 1935 was three times the number reported for in 1929. Total membership on the other hand had increased more than 100 per cent, while the average membership per society had dropped 75. This latter condition is a good sign, as credit union leaders are of the belief that an average membership of 200 per society is ideal.

The only other item which requires mentioning is the one pertaining to loans made during the year. The total loans made in 1929 and 1935 are practically the same. However, the average loan in 1929 was a little more than \$200 greater than that in 1935. It may be deduced from this that loans were being spread more evenly in 1935 - that either preference was being given to small loans, or the members required only small loans to meet their needs. In comparing the average loan per society for the two years (1929 and 1935), we find that the discrepancy of \$40,000 may be due to the fact that though the total amount loaned in each of the two years was practically the same, the number of societies reporting was only 838 in 1929, as compared with 2,589 in 1935.

Statistics for the year 1936 have been the latest released for state credit unions. Of course, later statistics have been released for the individual states, but as yet no composite has been issued. In the April, 1938 issue of the Monthly Labor Review these combined statistics for 1936 are given and compared with those for Federal credit unions for that year. In order that we may make a comparison, I present a duplicate of the Monthly Labor Review's summary:





Report and Estimated Total Membership and Assets of Credit Unions at End of 1936(1)

State and Geographical Division	Total number of known credit unions	Membership			Total assets		
		Associations re- porting to B.L.S.		Estimated total members, all associations	Associations re- porting to B.L.S.		Estimated total amount, all associations
		num- ber	members		Number	Amount	
United States	5,478	4,408	1,044,499	1,197,466	4,437	\$80,215,392	\$90,098,239
State associations	3,613	2,734	741,502	881,496	2,774	71,124,747	80,686,433
Federal associations	1,865(2)	1,674	302,947	315,970	1,663	9,090,645	9,411,806

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(1) "Summary of Credit Union Operations, 1936", Monthly Labor Review (April, 1938), p. 879.

(2) Includes 77 credit unions chartered but not in operation at end of year.





According to these statistics, credit unions chartered under the various state laws comprised about 66 per cent of the total chartered and possessed about 71 per cent of the total membership. These state credit unions also possessed approximately 89 per cent of the total assets reported. However, these statistics should not be considered too seriously in any evaluation of the strength of Federal credit unions. At the end of 1936, the latter had been in operation only two years and three months. When the Federal credit unions have been in operation a considerable period of time, the picture that will be presented may be entirely different from the one above.(1)

Another table presented in the same issue of the Monthly Labor Review shows the total number of loans made and amounts loaned by credit unions (both state and Federal) in 1936. This table is presented on the following page.

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(1) See page 99 for the latest figures on Federal credit unions.





Reported and Estimated Total Number of Loans Made and Amounts Loaned by Credit Unions in 1936(1)

State Geographical Division	Total number of known credit unions	Number of Loans			Amount of Loans		
		Associations re- porting to B.L.S.		Estimated total all associations	Associations re- porting to B.L.S.		Estimated total, all associations
		num- ber	borrowers		Number	Amount	
United States	5,478	3,866	808,307	1,037,626	3,825	\$87,814,844	\$112,056,741
State associations	3,613	2,295	589,598	808,471	2,210	72,707,734	96,398,081
Federal associations	1,865(2)	1,571	218,709	229,155	1,615	15,107,160	15,658,060

(1) "Summary of Credit Union Operations, 1936", Monthly Labor Review (April, 1938) p. 380.

(2) Includes 77 credit unions chartered but not in operation at end of year.





On the basis of the preceding statistics about 83 per cent of the total business reported for 1936 was done by credit unions chartered under the various state laws. However, on the basis of the number of borrowers, the state credit unions transacted only about 73 per cent of the total business done, the average loan of state credit unions amounting to approximately \$123, as compared with about \$70 for the Federal associations. The low average loan figure for Federal credit unions may be due to their attempt to extend their limited loan facilities to the greatest number of eligible borrowers.

The following statistics, taken from Mr. Bergengren's third book on the credit union show the steps in the development of credit unionism in the United States:

- (1) Between 1909 and 1921, 190 credit unions were formed.
- (2) From 1921 to 1934, the total was brought up to 3,555.
- (3) From the beginning of the National Association in 1934 to the end of 1937, the total was brought up to 6,531.
- (4) In April, 1938, the total number of credit unions in the United States was 6,831.(1)

The above figures show that the growth of credit unions in the United States actually took place in the period between 1921 and 1934 and from the beginning of the National Association in 1934 to the present. The rapid increase experienced from 1921 to 1934 was largely due to the work of the Credit Union National Extension Bureau. It is therefore appropos to take up at this point the accomplishments of the Bureau during the time that it was in existence.

#### The Legislative Work of the Credit Union National Extension Bureau

In 1921 Edward A. Filene, now satisfied with the work he had

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(1) Roy F. Bergengren, C U N A Emerges, p. 178.





accomplished in Massachusetts, collaborated with Roy F. Bergengren in the organization of the Credit Union National Extension Bureau. The former contributed almost a million dollars to finance the Bureau in its work of promoting the national expansion of credit unions.

The Bureau's three main objectives were:(1)

- "(1) To obtain the laws necessary.
- (2) To make a major organization demonstration.
- (3) At the earliest possible time, to organize the credit unions resulting from its activities into State Leagues and a National Association and then turn the work over to the credit unions on a national basis."

An office was opened at 5 Park Square, Boston, Massachusetts, with Mr. Bergengren in charge, and the Bureau continued to operate until 1934, when it was felt that its objectives had been realized.

The Bureau's first task was legislative. Between 1921 and 1934 approximately seven legislative sessions were held. Credit union laws under the sponsorship of the Bureau were passed during this period in Alabama(1927), Arizona (1929), Arkansas (1931), California (1927), Colorado (1931), Florida (1929), Georgia (1925), Idaho (1935), Illinois (1925), Indiana (1923), Iowa (1925), Kansas (1929), Kentucky (1922), Louisiana (1924), Maryland (1929), Massachusetts (revised 1926), Michigan (1925), Minnesota (1925), Mississippi (1924), Missouri (1927), Montana (1929), Nebraska (amended 1921), New Hampshire (1921), New Jersey (1924), New York (revised 1935), North Carolina (revised 1935), North Dakota (1935), Ohio (1931), Oklahoma (1933), Oregon (amended 1929), Pennsylvania (1933), Rhode Island (revised 1935), South Carolina (revised 1935), South Dakota (1935), Tennessee (1923), Texas (amended 1929), Utah (amended 1929),

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(1) Roy F. Bergengren, "Cooperative Credit", The Annals of the American Academy. (May, 1937), p. 145.





Virginia (1921), Washington (1933), West Virginia (1925), and Wisconsin (amended 1929).

The Federal Credit Union Law was the brain-child of the Credit Union National Extension Bureau. After the passage of this law in 1934, it was felt that the Bureau had accomplished its objectives and was no longer necessary. By this time the number of credit unions had reached a total which justified the belief that they could now go along under their own sails. Previous to this time credit unions in the United States were not self-sustaining, receiving outside assistance from such benefactors as Edward A. Filene.

#### The Credit Union National Association

Upon the discontinuance of the Credit Union National Extension Bureau, the Credit Union National Association was organized. Consisting of 41 state leagues of credit unions, it includes also 250 city and district chapters of credit unions, holding monthly meetings for educational purposes.

The government of the National Association rests with a board of directors composed of one national director from each state and one additional director for each 15,000 credit union members in a given state league. As of May, 1937, the board consisted of 59 members. An executive committee of nine members composed of the officers and including five vice-presidents chosen geographically, administer the affairs of C U N A between annual meetings.

At the annual meeting of the Illinois Credit Union League in 1934 the first formal discussion of the organization of C U N A was held. At this meeting Claude R. Orchard proposed that a group meeting of credit union leaders be held at Estes Park, Colorado between August 7th and 11th of that year to organize the National Association by drawing up and ratify-





ing a national constitution and by-laws.

At this conference at Estes Park there were present fifty-two men and women from twenty-two states. August 11, 1934 marked the birthday of C U N A, for it was on that day that the Constitution and By-Laws were unanimously approved and signed by the delegates.

The Credit Union National Extension Bureau then proceeded to organize state leagues, and when the first National Board meeting convened at Kansas City, Missouri, on January 27, 1935, thirty-five state leagues had been organized and had ratified. Edward A. Filene was the National Association's first president. He served in this capacity until the second annual meeting, which was held at Madison, Wisconsin, in February, 1936. Claude E. Clarke of Cleveland, Ohio, was the National Association's second president.

The fourth annual meeting of the National Association was held at Madison, Wisconsin last April 8th and 9th. At this meeting Presley D. Holmes, President of the Illinois Credit Union League, was chosen successor to Claude E. Clarke. An amendment to the by-laws of the National Association brought about an increase in the number of vice-presidents from five to six and the rearrangement of vice-presidential districts.

At this fourth annual meeting a decision was made to maintain the central office of the National Association at Raiffeisen House, Madison, Wisconsin. A decision was also made to build Filene House, as a memorial to the late Edward A. Filene, which house is to be the main center of the National Association. Claude E. Clarke was chosen President of the Filene Memorial Building Fund, which will be raised by popular subscription from two million credit union members. The hope is that this new home will be ready by 1940.





The Credit Union National Association operates with a staff (with affiliates included) of thirty-seven persons. Roy F. Bergengren is Managing Director, while Thomas W. Doig is Assistant Managing Director. The Raiffeisen House is also the home of the affiliates of C U N A.

#### The Affiliates of C U N A

The main affiliates of C U N A are:

- (1) The C U N A Mutual Society.
- (2) The C U N A Supply Cooperative.
- (3) The Bridge.

The C U N A Mutual Society writes loan protective insurance for credit union members. Under the usual policy, the credit union pays for the insurance, and every borrower is covered without additional cost to him. At the present time the C U N A Mutual Society is also writing life savings insurance, its total monthly coverage approximating \$16,000,000.(1)

The C U N A Supply Cooperative, on the other hand, makes and sends out accounting forms, conducting its business on a national scale. It is a Wisconsin cooperative society, whose members are the various State Leagues.

The Bridge is the official organ of the credit union movement in the United States. While the Pioneer is the publication of credit unions in Massachusetts only, the Bridge has a nation-wide circulation.

The Bridge is a monthly magazine published by the Credit Union National Association. The subscription price per single subscription is fifty cents a year. However, it is only forty cents a year if the entire membership of the credit union subscribes.

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(1) Roy F. Bergengren, op. cit., p. 222.





### The Nova Scotian Development

One might wonder why I include this latest Canadian development in a chapter treating the later development in the United States. I am discussing it here for this reason: Alphonse Desjardins was a major factor in the American development, aiding in the establishment of the first credit union in the United States at Manchester, New Hampshire; he helped frame the Massachusetts law and contributed to the New York development. In 1933 the organized credit union movement in the United States returned the favor in part by aiding in the bringing of cooperative credit to Nova Scotia.

The latest credit union development in Canada is found in the province of Nova Scotia. There are now cooperative credit societies in three Canadian provinces: Quebec, Alberta (the first one was formed in 1918), and Nova Scotia.

The Nova Scotian societies are modeled after the American credit union, the first one being set up in 1933. In the early stage of their development the Nova Scotian societies used (and to a certain extent still use) the promotional literature of the Credit Union National Extension Bureau and the Credit Union National Association. Roy F. Bergengren, who is director of the promotional activities in the United States, aided in the formation, and as a reward one of the societies in Nova Scotia bears his name. He is honorary president of the Credit Union League of the province.

The extension department of St. Francis Xavier University at Antigonish handles activities which in the United States are conducted by the Credit Union National Association. A. B. McDonald is Managing Director of the Nova Scotian League.





The fourth annual convention of the League was held last July.

In his report the President stated that the number of credit unions in the Province had grown from 101 at the beginning of the year (1938) to a present total of 135, an increase of 14; that the value of shares and deposits now amounts to \$516,049.30, an increase of \$186,781.90 over the preceding year; that the value of total assets is now \$551,316.46, and that the membership is now 22,157.(1)

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(1) These statistics are taken from mimeographed data on the Fourth Annual Convention of the Nova Scotia Credit Union League, p. 1.





## CHAPTER V

### FEDERAL CREDIT UNIONS

When Congress enacted Senate Bill 1639, which was sponsored by Senator Morris Sheppard of Texas, it became possible to form a credit union anywhere in the United States and the territorial possessions thereof. This all came about during the 73rd session of Congress, the law being passed on June 26, 1934. It is now possible to form a credit union under Federal supervision wherever the American flag flies.

In the 41 states which have passed credit union laws organizers have the alternative of petitioning for a charter under either the particular state or the Federal law. Whether it would be wiser to organize under the former than under the latter is a matter which cannot be settled by any snap judgment. For the most part it narrows down to a comparison of the individual state law with the Federal law. Some state laws present better incentives for formation under them than others. In those states where operation under local law places a burden upon the credit union, it would be wiser to organize under Federal supervision.

#### Supervision of Federal Credit Unions

The supervision of Federal credit unions rests in the hands of the Farm Credit Administration at Washington, D. C. It is this body which issues charters to the individual credit unions.

Why was the Farm Credit Administration chosen to administer the Federal Credit Union Act? On the surface it would seem improper to have a body which deals with agricultural credit problems aid the credit union movement which has experienced a greater growth in cities than in farming





areas. However, we must not lose sight of the fact that the F. C. A. is a cooperative organization specializing in the field of cooperative financing. Since the F. C. A.'s specialty was in this province, it was considered qualified for the job of administering soundly the provisions of the Federal Credit Union Act.

#### How A Federal Credit Union May Be Formed

A Federal credit union may be organized by any seven persons in a group which has a close common bond. Application for a charter is made to the Farm Credit Administration in Washington, D. C., which judges whether the group applying has a field of membership suitable for such an organization. The common bond may be: employment by the same company, membership in the same religious or fraternal body, occupation as farmers in a given locality, or common residence in a small well-defined community. Finally, the group must possess at least 80 potential members who will be interested in joining it.

The Federal Government will aid the new group and will advise the proper procedure. The members themselves choose their board of directors on the cooperative principle of one vote to a member. A new member must promise to subscribe to one \$5 share payable in cash or in stated installments. He can, however, purchase more than one share if he so desires. He also is obligated to pay an entrance fee of twenty-five cents.

A person is admitted to membership in a Federal credit union after his election by the board of directors and after paying the entrance fee and the first installment on one or more shares. He is now eligible to apply for and to receive a loan if the loan meets with the approval of the credit committee of the credit union. After a member has paid for one share, he is entitled to his portion of any annual dividends which may be declared.





### Management of a Federal Credit Union(1)

The business of a Federal credit union is carried on exclusively by its members, nonmembers being denied voting power. A Federal credit union is managed by a board of directors of not less than five, a credit committee of not less than three and a supervisory committee of three, not more than one of whom may be a director. All of these persons are chosen by and from the members in elections. As has been stated, each member is entitled to only one vote, despite the number of shares he may hold.

The directors choose from their own number a president, a vice-president, a clerk, and a treasurer. The offices of clerk and treasurer may be combined.

No member of the board of directors or any committee member may receive compensation for his services. The by-laws of the individual credit union usually prescribe the compensation which officers may receive. As a rule, the treasurer is the only paid officer, and in the smaller credit unions where little bookkeeping is required, he may be unpaid.

### The Federal Credit Union Act

The Federal Credit Union Act is similar in aim and form to the many State Credit union laws, the majority of which are fashioned after the model credit union law. Some of the provisions of the Act have been considered above, especially those in regard to the administration of the individual credit union. Therefore, I will take up at this point only those important provisions which I have not already treated.

### Provisions of the Federal Law To-Day(2)

Loans to Members:-- Loans may be made to members only, for

(1) For additional material on credit union management, see Chapter VI.

(2) The material to be presented has been taken from The Federal Credit Union Act As Amended to June 16, 1938, pp. 1-12. Circular No. 22: Farm Credit Administration.





provident or productive purposes, for a length of time not greater than two years. All loans must meet with the approval of the credit committee.

An unsecured loan may not exceed \$50, while a secured one may not exceed \$200 or 10 per cent of the unimpaired capital and surplus of the credit union, whichever is greater. Security for a loan may include the assignment of wages or the endorsement of a note.

Interest on loans must not exceed 1 per cent per month on unpaid balances (inclusive of all charges incident to making the loans). Each credit union is to fix its own interest rate within this limit.

Deposits Made by Federal Credit Unions:-- Funds of a Federal credit union must be deposited in a bank chosen by the board of directors. Surplus funds may be invested by directors in obligations of the Federal Government or in securities fully guaranteed as to principal and interest by the Federal Government. A credit union may also invest its funds in loans to other credit unions, up to a total of 25 per cent of its unimpaired capital and surplus, and in shares or accounts of Federal savings and loan associations.

Dividends:-- At the annual meeting of the credit union the members may declare a dividend from net earnings for the year, after all operating costs, including taxes, have been deducted, and after 20 per cent (of the net earnings) has been segregated in the reserve fund. Dividends may be paid only on shares fully paid as of December 1st and outstanding on December 31st.

Powers of the Governor of the Farm Credit Administration:-- Federal credit unions are unlike those formed under state laws in that the former are subject to a certain extent to the authority of the Governor of the F. C. A. The Governor has certain powers granted to him in the Act which enable him to exercise some influence over the individual





Federal credit unions.

First of all, the Governor is given the power to prescribe rules and regulations for the carrying out of the provisions of the Act, including the merger, consolidation and dissolution of associations. He is empowered to suspend or revoke the charter of any Federal credit union which has become bankrupt or has violated any part of its charter, its by-laws, or any section of the Act.

The Governor of the Farm Credit Administration is also given the power to delegate any authority vested in him by the Act. Report forms to be used by Federal credit unions must be approved by him. Finally, he is empowered to make studies concerning the problems confronted by persons of small means in obtaining credit at reasonable rates of interest.

Borrowings by Federal Credit Unions:-- A Federal credit union is allowed to borrow in an aggregate amount not exceeding 50 per cent of its paid-in and unimpaired capital and surplus. On the other hand, it may discount with, or sell to, any Federal intermediate credit bank any eligible obligations up to the total of its paid-in and unimpaired capital.

Expulsion and Withdrawal of Members:-- Expulsion of any member may be effected upon a two-thirds vote of the members in attendance at a special meeting called for that purpose. However, before the vote is taken, the member must be presented an opportunity to plead his case. Withdrawal or expulsion of a member shall not relieve him from liability to the credit union.

#### Organization of Credit Unions Under the Act

The organization of Federal credit unions did not start until October, 1934, three months after the passage of the Act. Within the next three months 78 were formed. By October 1, 1935, a total of 615 had been chartered. The following table shows in concise form the early development of Federal credit unions.

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Federal Credit Unions Chartered During First 18 Months Under the Act(1)

	Number Chartered	Cumula- tive Total		Number Chartered	Cumula- tive Total
Last 3 months of 1934	78	78	August, 1935	72	561
January, 1935	32	110	September	54	615
February	29	139	October	97	712
March	71	210	November	92	804
April	93	303	December	100	904
May	60	363	January, 1936	98	1002
June	60	423	February	92	1094
July	66	489	March	111	1205

Of course, all of the 615 Federal credit unions chartered by October 1, 1935 were not in operation at that date. On October 1, 1935 only 504 of them were in operation. At that time they possessed assets of \$1,300,000, and had extended about 30,000 loans totalling \$1,600,000. The average purchase of shares was about \$125 per member, while the average loan was approximately \$50.(2)

The Work Accomplished by Claude R. Orchard

Claude R. Orchard was chosen director of the Credit Union Section of the Farm Credit Administration in 1934. A wise choice was made as he is an experienced credit union organizer. While he was employed in the personnel department of Armour and Company, he did considerable work along that line.

After the Federal Act was enacted Armour and Company loaned him to the F. C. A. During the greater part of his first year in office

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(1) M. R. Neifeld, Cooperative Consumer Credit, p. 78.

(2) Ibid., p. 50.





Mr. Orchard had under him a staff of ten field workers, whose sole task was the organization of new credit unions. This staff was subsequently increased to twenty.

Very little direct promotional work was done by the Federal organizers during the first year. Immediately after the passage of the Federal Credit Union Act an active newspaper campaign setting forth the advantages of credit unions was conducted. Because of this, the organizers were occupied in aiding those who had already decided to form credit unions. Only those who seemed most fitted to organize were urged to do so.

The Administration is still opposed to large credit unions. It believes that a union of forty or fifty members can be a very effective one. Groups which possess more than 200 members are urged to form more than one credit union.

#### Types of Federal Credit Unions in Existence

More Federal credit unions are formed within industrial plants than within any other group. The next largest group is composed of government employees - federal, state, county and municipal. The remaining Federal credit unions (approximately 1/6 of the total number) are formed by lodges, associations, clubs, churches, teachers' groups or communities.

The following table is presented at this point in order that I may substantiate the above statements:





Types of Credit Unions Organized Under Federal Charter (1)

October 1, 1934 to October 1, 1935

	Indus- trial	Govern- ment	Com- munity	Teacher	Associa- tion	Church	Total Stable	Total Weak	Total
Oct.-Jan., 1934	43	14	2	9	6	4	57	21	78
January, 1935	17	7	5	2	1		24	8	32
February	16	7	2	1	1	2	23	6	29
March	44	17	2	5	2	1	61	10	71
April	56	24	2	3	8		80	13	93
May	41	12		5	2		53	7	60
June	43	9	4	2		2	52	8	60
July	46	17	1			2	63	3	66
August	45	16	5		6		61	11	72
September	37	13	1		2	1	50	4	54
Total	388	136	24	27	28	12	524	91	615

(1) M. R. Neifeld, op. cit., p. 84.





The Condition of Federal Credit Unions on December 31, 1937(1)

By the end of 1937, 2,500 credit unions had been chartered under the Federal law, constituting an increase of 638, or 34 per cent, over the 1,862 which had received Federal charters up to December 31, 1936. For the December 31, 1937 report data from 2,103 of the 2,500 credit unions chartered were included. Of the 397 credit unions not covered in the report, 73 had not begun functioning by the end of 1937, 99 had either been or were being liquidated, 29 had submitted incomplete reports, and 196 had not as yet placed reports in the hands of the F. C. A.

As of December 31, 1937, Pennsylvania ranked first in the number of Federal credit unions chartered with 296, while New York was second with 294. California with 173, Texas with 167, Ohio with 135, Connecticut with 119, and New Jersey with 117 ranked next in order. The number chartered in these seven states constituted over one-half of the total number chartered through December 31, 1937.

From the viewpoint of the type of membership the report shows that the largest number (268) had been chartered by employees of the Federal Government. On December 31, 1937, Federal credit unions formed among employees of petroleum companies numbered 197; those among school and college teachers and employees, 178; and those among store employees, 168. These four types constituted slightly less than one-third of the total number chartered through December 31, 1937.

The following is a condensed balance sheet as of December 31, 1937 of the 2,103 Federal credit unions covered in the report together with

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(1) The statistics to be used under this heading were obtained from Federal Credit Unions - Quarterly Report on Operations, December 31, 1937, pp. 1-5. Washington: Farm Credit Administration. Statistics not from this source will be specifically footnoted.





comparative balance sheets of the average Federal credit union on  
 December 31, 1937 and December 31, 1936:

	December 31, 1937	December 31, 1936
Assets		
Cash	10,000.00	8,000.00
U.S. Government Bonds	100,000.00	100,000.00
State and Local Bonds	400,000.00	400,000.00
Federal Reserve Bank Notes	100,000.00	100,000.00
Real Estate	100,000.00	100,000.00
Loans	100,000.00	100,000.00
Other Assets	10,000.00	10,000.00
Liabilities		
Deposits	100,000.00	100,000.00
Borrowings	100,000.00	100,000.00
Other Liabilities	10,000.00	10,000.00
Net Worth	10,000.00	10,000.00





Balance Sheet of Federal Credit Unions on December 31, 1936 and December 31, 1937

	Average per credit union				
	As of December 31, 1937	Percent of total	As of December 31, 1937 (1)	As of December 31, 1936 (2)	Increase during 1937
<u>Assets</u>	Amount				
Loans . . . . .	\$14,900,544	81	\$7,085	\$4,309	\$2,776
Cash . . . . .	2,957,901	16	1,407	961	446
Other . . . . .	452,847	3	215	105	110
Total assets . . . . .	\$18,311,292	100	\$8,707	\$5,375	\$3,332
<u>Liabilities</u>					
Accounts and notes payable and other liabilities	\$ 420,876	2	\$ 200	\$ 138	\$ 62
Reserve for bad loans . .	398,900	2	190	100	90
Shares . . . . .	16,774,674	92	7,976	4,995	2,981
Undivided profits . . . .	716,842	4	371	142	199
Total liabilities . . . .	\$18,311,292	100	\$8,707	\$5,375	\$3,332

(1) On basis of reports from 2,103 Federal credit unions.

(2) On basis of reports from 1,701 Federal credit unions.





As of December 31, 1937, the 2,103 Federal credit unions had 199,486 loans outstanding totalling \$14,900,544, the average loan outstanding per credit union amounting to \$7,085. At the end of 1936, the 1,701 credit unions had 122,689 loans outstanding amounting to \$7,330,248, or an average of \$4,309 per credit union. The amount of loans outstanding at the end of 1937 represented 81 per cent of the total assets and 89 per cent of the total share capital of the 2,103 credit unions reporting. Notes and accounts payable and other liabilities equalled in amount approximately 3 per cent of total loans outstanding on the same date.

During the period from organization through December 31, 1937, 636,333 loans amounting to \$49,553,945 were made by the 2,103 Federal credit unions, which represents an increase of 351,820 in number and \$30,774,394 in amount over the number and amount of loans made through December 31, 1936 by the 1,701 credit unions reporting at that time. The average size loan made during this period from organization through December 31, 1937 was \$78, while the amount loaned per credit union was \$23,563. Similar figures for the period from organization through December 31, 1936 were \$66 and \$11,040 respectively.

Total reserve for bad loans and undivided profits totalled \$1,115,742 or \$531 per credit union on December 31, 1937. This latter figure constitutes an increase of \$239 per credit union over the total reported at the end of 1936. The total reserve for bad loans as of December 31, 1937 represented 2.7 per cent of the total amount of loans outstanding on that date.

At the end of 1937, dividends amounting to \$476,572 on shares outstanding on that date had been declared by 1,426 Federal credit unions, or by 57 per cent of the total number chartered. At the end of 1936, 858 of the 1,862 credit unions chartered as of that date had declared dividends





amounting to \$179,923.

During 1937, the 2,103 credit unions had reported a total net profit of \$661,959, or an average of \$315 per credit union. This constitutes an increase of \$411,701, or \$168 per credit union, over the net profit of \$250,258 reported for 1936 by the 1,701 credit unions furnishing reports at the end of that year.

The following comparative combined statement of income and expense for the average Federal credit union during 1937 and 1936 is presented from the report:





Comparative Combined Statement of Income and Expense  
for the Average Federal Credit Union During 1936 and 1937

Item	Average credit union - Year ended		
	December 31, 1937(1)	December 31, 1936(2)	December 31, 1937(+ or -)
<u>Income</u>			
Interest on loans . . . . .	\$582	\$280	\$302
Entrance fees and fines . . . . .	41	39	2
Other . . . . .	10	7	3
Total income . . . . .	633	326	307
<u>Expense</u>			
Total salaries . . . . .	102	34	68
Stationery and supplies . . . . .	21	25	4
Interest paid on borrowed money . .	7	3	4
Other . . . . .	68	38	30
Total expense . . . . .	198	100	98
Transferred to reserve for bad loans	120	79	41
Net Profit . . . . .	315	147	168

(1) On basis of reports from 2,103 Federal credit unions.

(2) On basis of reports from 1,701 Federal credit unions.





The statement presented above brings out the fact that most of the average credit union's income is derived from interest on loans. Approximately 92 per cent of the total income in 1937 (about 86 per cent in 1936) was obtained from this source. Salaries seemed to be the main expense, especially in 1937, in which year they constituted approximately 52 per cent of the total expense. About 50 per cent of the total income in 1937 (about 45 per cent in 1936) was net profit.

The membership of the 2,103 Federal credit unions reporting totalled 448,090 on December 31, 1937, or an average of 213 members per credit union. On the other hand, the 1,701 credit unions reporting as of December 31, 1936 possessed 304,176 members or an average of 179 members per credit union. Membership in the average credit union in 1937 had increased approximately 18 per cent over 1936.

The following combined balance sheets show in a concise manner the rapid growth of Federal credit unions in the United States:





# FEDERAL CREDIT UNIONS

Combined balance sheets, December 31, 1937, December 31, 1936,  
December 31, 1935 and December 31, 1934

## United States Total

	Dec. 31, 1937 (2,103 credit unions reporting)	Dec. 31, 1936 (1,701 credit unions reporting)	Dec. 31, 1935 (762 credit unions reporting)	Dec. 31, 1934 (39 credit unions reporting)(1)
<b>ASSETS</b>				
Loans . . . . .	\$14,900,544	\$7,530,248	\$1,830,489	\$15,422
Cash . . . . .	2,957,901	1,634,216	516,156	7,711
Other . . . . .	452,847	178,470	21,876	151
Total . . . . .	\$18,311,292	\$9,142,394	\$2,368,521	\$23,284
<b>LIABILITIES</b>				
Accounts and notes payable and other liabilities .	\$ 420,876	\$ 234,713	\$ 85,436	\$ 800
Reserve for bad loans . .	398,900	170,442	40,520	815
Shares . . . . .	16,774,674	8,496,526	2,224,608	23,120
Undivided profits . . . .	716,842	241,253	17,957	1,451
Total . . . . .	\$18,311,292	\$9,142,394	\$2,368,394	\$23,284

(1) First Federal credit union chartered October 1, 1934.





These combined balance sheets trace the development of Federal credit unions from their early small beginning to their present-day important position. This development has been phenomenal, to say the least. Within a relatively short span of three years, these Federal credit unions had experienced an increase of almost \$18,300,000 in total assets.

The picture which the comparative balance sheets present shows the healthy condition of Federal credit unions to-day. It may be easily perceived that these credit unions expanded their operations greatly within a relatively short period of time, at the same time building up their cash position. The remarkable increase in shares and undivided profits on the liability side brings out the fact that the advocates of the Federal law were not mistaken in their judgment as to the need for Federal credit unions in this country.

Let us compare at this point the growth of Federal credit unions with that experienced in Massachusetts. No one can deny the fact that the State credit union development in the Bay State has been more advanced than that in any other state. Massachusetts State credit unions on December 31, 1937 reported total assets of approximately \$19,000,000, about \$700,000 more than those of the Federal credit union. However, the former had been in operation at that date thirty-seven years or more, while the latter's origin had been comparatively recent.(1)

Then, too, the Federal credit unions had approximately \$1,200,000 more in loans outstanding at that date. This connotes the fact that the volume of business done by the Federal unions during the year was greater than that done by the Massachusetts unions, in spite of the comparative

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(1) The Massachusetts statistics used here are from Annual Report of the Commissioner of Banks for the Year Ending December 31, 1937, p. VII.  
The Commonwealth of Massachusetts.





newness of the former.

On the other hand, we must not lose sight of the fact that the average credit union in Massachusetts is much larger than the average Federal credit union if we compare them on the basis of assets possessed by each. The average credit union in Massachusetts on December 31, 1937 possessed total assets of \$51,628.71, while the average Federal credit union had total assets of only \$8,707 as of the same date. Looking at the situation from another angle, the average loan outstanding per credit union in Massachusetts was approximately \$35,149.86, as compared with \$7,085 for the average Federal union.

However, what was brought out in the last paragraph should not detract from any praise which may be given to the Federal credit unions. They are still young, and many of them are far from their full growth. Whether the average Federal credit union will ever attain the size of the average Massachusetts credit union is a matter for the future to decide. From this vantage point, it looks as though the Federal credit unions will continue their phenomenal growth.





## CHAPTER VI

### CREDIT UNION MANAGEMENT

Credit union management rests in the hands of the board of directors, the officers and the members of the credit and supervisory committees. These men obtain their powers ultimately from the individual state or the Federal credit union law and immediately from the individual credit union's by-laws. I say ultimately, because no powers which are in direct contradiction to the particular law under which the credit union is operating can be conferred upon managers in the by-laws.

Thus, we see that credit union management has two sources of authority, one of which results from legislation, while the other results from the members' adoption of the by-laws. The by-laws usually elaborate on the individual law and delegate to the managers additional powers not specifically prohibited by the law.

#### The Board of Directors

Since the board of directors constitutes the first managing group to be created in a new credit union, I will discuss its functions first. As has been previously stated, the board of directors is chosen by the members, usually at the organization meeting. Credit union organizers stress the fact that the board members should be representative of the group to be served and should be individuals who command the respect and confidence of the credit union members.

I need not emphasize here the importance of the board of directors. We all know how powerful and influential this body is in our modern American corporation. The members of a credit union, when they are about





to begin a cooperative credit career, should be made to realize how important and essential a cog the board is. Therefore, every effort should be made to secure a right type of board of directors, for a step in the wrong direction at the beginning may prove to be the difference between success and failure at a later date.

Board members must be men who do independent thinking, men who give every evidence that they will give their new jobs conscientious attention. Many are the directors who attend only a small number of meetings and vote according to the way in which the majority votes. Since they lack a conscientious spirit, some of them rarely contribute anything constructive to the board of which they are members. It is a credit union practice to allow the board of directors to oust any one of its members who has absented himself from three consecutive meetings without cause. Enforcement of this power by the board would certainly make for better credit union efficiency.

#### The Board of Directors as a Salesforce

The board of directors is the salesforce of the individual credit union; it is its job to sell the credit union to potential members. The work of spreading the value of the credit union by word-of-mouth advertising is in its province. It should be its task to see to it that there is a constant growth in membership until every eligible member joins. As the term implies, they are the directors of the association; alert direction is essential to the successful operation of the credit union.

#### Duties of the Board of Directors

Most duties of the board of directors are uniform, whether credit union organization takes place under one of the various state laws or under the Federal law. Needless to say, one of these uniform duties is to





elect from their own number at the board's first meeting and at each first meeting in the fiscal year a president, one or more vice-presidents, a clerk, and a treasurer, who are to be the executive officers of the credit union.

Care should be taken by the board in the selection of these officers, as too little emphasis cannot be placed upon the necessity of a proper choice. The board should use extreme care in appointing these men; it should be its aim to obtain the right man for each office. Petty politics should be cast aside, and the aim in selection should be idealistic rather than utilitarian.

The board of directors is also empowered as a rule to pass upon membership applications and to expel undesired members. The directors may determine from time to time the interest rate allowed on deposits and charged on loans. Dividend declarations and the recommendation of amendments to the by-laws are also within the board's province. Another special duty is to fix the maximum number of shares which any one member may hold and the maximum amount which any one member may borrow.

The board of directors may fill vacancies in its own body and in the credit committee, until the election of successors. Finally, the board is given the power to authorize and supervise investments of the credit union other than loans to members, and to perform such other duties as may be authorized by the members from time to time.

#### The Officers of the Credit Union

As has been previously stated, the board of directors elects from its own number at each first meeting in the fiscal year the officers of the credit union. While the president is the most important officer in most societies, in a credit union the treasurer is the key executive.

#### The President

The president is a minor officer in the credit union. His powers





are not major ones. His main job is to preside at all meetings of the members and at all meetings of the board of directors.

As head of the credit union, he is supposed to give a certain amount of prestige to the society. He is a jack of all trades - keeping in touch with the work of the credit and supervisory committees, helping the treasurer whenever it is necessary, and formulating plans for increasing both the membership and the service of the credit union to the membership.

Roy F. Bergengren in his third book on the credit union sums up adequately the basis for the choice of a president. He states that "he (the president) has been chosen because the originating members have faith in his diligence, his honesty, his good standing among his fellows, his willingness to make whatever sacrifice of time and effort may be necessary to get the credit union going and to keep it going." (1)

#### The Vice-President

As in all societies, the vice-president is one who takes over the functions of the president when the latter is not available. The vice-president of a credit union has and exercises all the powers, authority, and duties of the president only during the absence or disability of the latter.

#### The Clerk

The office of clerk in a credit union corresponds to the office of secretary in a corporation. It is the clerk's job to prepare and keep correct records of all meetings of the members, of the board of directors, and of the supervisory committee. It is also his task to notify members in the proper fashion of meetings to be held. His duties are so obvious

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(1) Roy F. Bergengren, C U N A Emerges, p. 145.





that they require no further comment here.

### The Treasurer

The treasurer is the most important single cog in the credit union. Since he handles all funds, he must be a man of unquestioned honesty. He also has custody of all securities, valuable papers, and other assets of the credit union. He signs all checks, drafts, notes and all other obligations which may be incurred.

It is the treasurer's job to make sure that full and complete records of all assets and liabilities are kept. It is also his responsibility to prepare and submit to the proper authorities monthly and annual financial statements of the condition of the credit union. Before taking up his duties, he must be bonded, the form and amount of the bond being determined by the board of directors.

When the credit union is first formed and until it is large enough to hire a bookkeeper, the treasurer usually keeps the books. He also helps the credit committee in the matter of granting loans.

The treasurer is the key man in the credit union. In many instances, he has a full-time position. His office may be in his home or in a small garage if the membership is very small. In the larger credit unions his office is housed in an office building.

I believe that the credit union members see more of the treasurer than any other official of the society. He has daily connections with them. He is aware of the credit needs of the members, as they air their problems to him first. He constitutes the contact man between potential borrowers and the credit committee.

### The Credit Committee

The general supervision of all loans rests with the credit committee. As a rule it is composed of three members, and it seldom possesses





more than five. While the by-laws usually stipulate a fixed monthly meeting, in practice the credit committee usually meets more often, depending upon the number of loan applications.

The make-up of the credit committee should be fairly representative of the group being served. If one part of the group is much larger in size than another part, the former should have a greater representation on the committee than the latter.

Care should be taken to prevent the credit committee's becoming a rubber stamp for the treasurer. The treasurer presents the loan application, together with the data on the potential borrower, to the credit committee. He is sometimes considered an ex-officio member of the committee, and may offer his advice on a particular loan application when he is requested to do so. At this point the treasurer steps out of the picture. It is up to the committee alone to sanction or reject the application; the responsibility rests entirely in its hands.

#### The Credit Committee's Attitude Towards Loans

Loans granted by credit committees are limited to those which are for "provident or productive purposes." This is what the law requires, and a credit union must conform to it. If a person borrows for what may reasonably be considered a provident purpose and uses the money for some purpose other than that set forth in the loan application, most credit union laws require that the loan become a demand loan, which must be paid back immediately.

Some credit unions have a difficult time in determining just what is meant by a "provident" purpose. They have a relatively easy time with the word "productive", which pertains for the most part to loans made by rural credit unions and which is broadly defined as a loan the proceeds of which will be utilized in an effort to produce something useful. Loans





to purchase farm machinery, feeds, fertilizer, et cetera are in this latter category.

However, what is a loan for "provident" purposes? It has been regarded as meaning a loan which promises a real benefit to the borrower. What may be a real benefit to the borrower is difficult to determine and is subject to individual interpretation.

The members of a credit committee should use due care in granting loans. However, if they tend to be too conservative, the purpose of the credit union may be defeated. They should regard credit as a service tool which must be used for the benefit of the members. A credit union which makes only conservative loans may boast of the fact that it suffers no losses. However, this latter condition may be due to the fact that in many cases credit is being denied where it should be extended.

On the other hand, a credit committee should not be lax in regard to the granting of loans. It should never aid a man in something which may prove injurious to him later in life.

The main task of the committee as regards loans is to safeguard the member against the high cost of installment credit. Mr. Bergengren presents the reason for this phase of the credit union work in the following manner:

"If the thing the applicant wants to buy is a good thing for him to buy and if his other obligations, his job and his prospects of holding onto it warrant going into debt for this thing, in about 99 cases out of 100, the cash price of the thing plus the cost of the credit union credit will be substantially less than the ultimate installment price of the same thing."(1)

In order of preference remedial loans - loans to care for sickness, death, and other unexpected trying situations in life - should come

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(1) Roy F. Bergengren, op. cit., p. 153.





first. Next, preference should be given to loans whose purpose is to improve the member's economic status - loans for educational purposes, loans to make additions to the house, et cetera. Finally come the loans to forestall payment on the installment plan. The credit union has declared this latter type of loan its greatest objective, as it realizes that the working people in this country waste hundreds of millions of dollars annually by buying things on the installment plan.(1)

Length of Loan:-- The credit union is mainly concerned with solving the short-term credit problems of its members. While it is true that some of the larger credit unions assist their members in building and purchasing homes by taking second mortgages, the majority of them are interested primarily in furnishing personal loans. The credit committee makes provisions for repayment of the loan, which in no instance should go beyond a year, with regular payments being made by the borrower in weekly or semi-monthly installments.

In its credit aspects the credit union is unique in four ways:

- "(1) It is interested in the purpose of the loan.
- (2) It is interested to get the borrower out of debt.
- (3) It is interested in the reason for the debt.
- (4) It is interested to build the borrower up economically in such fashion that he will not get into debt again."(2)

In contrast to the private lender, whose only aim in many cases is to maintain the borrower in debt as long as he is willing to pay the excessive interest required by his note, the credit union's only interest is to promote the welfare of the member.

(1) For additional material on the first two types of loans, see Classification of Loans on the next page.

(2) Roy F. Bergengren, Credit Union - A Cooperative Banking Book, p. 99.





Classification of Loans:-- The two general types of credit union loans are: (1) remedial loans and (2) constructive loans. Sometimes the same loan may be both remedial and constructive.

Remedial Loans:-- A remedial loan is one which is given to aid a member over a rough spot in the road. This type of loan includes those which are a by-product of the emergencies which appear to be part and parcel of the business of living. It occurs quite frequently that a member has been struggling along, attempting to pay off each week something on several household bills. The credit union may help him greatly in his predicament by loaning him sufficient money to wipe out his entire indebtedness so that he will have only one payment to make each week, of a size which he can reasonably handle.

Constructive Loans:-- When the credit union first starts operating, the remedial loan is the predominating type. As the credit union increases in size, constructive loans become more common. A constructive loan is one which promises to aid the borrower improve his economic lot. There are several examples of this latter type, of which I will mention only a few of the more important ones.

Educational Loans:-- A loan may be made to a member to make possible a course of instruction or to aid him finance the education of his children. Much has been done along this line, and the results obtained have served to enhance the value of the credit union.

Loans to Help Members Acquire Homes:-- Credit unions make second mortgage as well as first mortgage loans. Second mortgage loans have been approved by credit unions, when satisfactory security has been furnished by the borrower.

First mortgage loans to aid members to build and purchase homes have become more prominent of recent date, especially in the larger credit





unions. However, no credit union should make any mortgage loan of any kind unless the saturation point in small, personal loans have been reached, and unless the proposition is one which promises to aid the member in a bona fide fashion to build or purchase a home fairly within his means.

Loans to Assist Home-owners:-- The credit union often aids a home-owner whose taxes become due at a time when he lacks temporarily funds to meet the indebtedness. It also helps him make needed repairs to his home when his own financial condition is temporarily disabled. Loans to shingle the house, to instal a new bathroom, to make minor repairs, et cetera are examples of the latter type of loan.

Security for Loans:-- When making stipulations in regard to the security for loans, the credit committee has to abide by the law under which the credit union is operating. The majority of credit union laws specify \$50 as the maximum amount for an unsecured loan. In Massachusetts the limit is \$100. If the borrowing member possesses shares and deposits or just shares in the credit union and offers them as security, it is considered good practice to loan up to \$50 over and above the amount of the shares or the shares and deposits, if the borrower's character meets with the approval of the committee.(1)

Endorsements are the most common type of security in a credit union. Although there is no requirement in the law that the endorser be a member of the credit union, in most cases he is a fellow-member. The number of endorsers should vary with the size of the loan. If the loan is a very large one for the credit union, a large number of endorsers may be required.

There should be careful guarding against a credit union member's

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(1) See the analysis of state laws in Chapter III for the maximum amount for unsecured loans.





endorsing too many notes. He should also be made to realize the full significance of his act - that his endorsement is a guarantee that he will pay if the borrower does not.

In many instances the borrower's character is the real security for a credit union loan. Character loans are given on the basis of the type of man the borrower is. The credit committee investigates this phase fully. Does the borrower borrow from his fellow worker and fail to repay? What kind of family man is he? Are his personal habits above reproach? Credit committees attempt to determine whether the borrower is the kind of man who will repay his obligation, and they possess the knowledge on which they can make accurate estimate of his character. Credit unions consider a man's character really negotiable.

How Much a Member Must Have in the Credit Union to Become a Borrower:-- In a credit union loans are made to members only. It sometimes happens that a person becomes a member for the first time only when he needs to borrow. In his case he is required to join first, filing his loan application in the ordinary manner. If he had a considerable amount in the credit union in shares or deposits, he would have a portion of his security available and would therefore be able to obtain more favorable terms.

Since he possesses no interest in the credit union, he must furnish equivalent security. It will probably be demanded of him that he subscribe to a proportionate part of his loan in shares, so that as he is retiring the loan, he will also be building up a small savings account. In all cases, it will be expected of him that he become a substantial and habitual saver after his loan is retired, and the credit committee's later opinion of him will be influenced largely by whether or not he utilizes the thrift side of the credit union thereafter.





The credit committee will not turn him down the first time, however, just because he has no investment in the credit union. Credit unions have come to realize the fact that many persons who first enter as borrowers have proved to be desirable members.

#### The Credit Committee as a Service Agency

The credit committee should act in an advisory capacity for potential borrowers. A potential borrower should feel free to consult the committee concerning the advisability of obtaining a loan. Many times a member does not need a loan; after reviewing his credit problem with the committee, he may find that he can take care of his credit needs without resorting to a loan.

A credit committee should never violate the confidence of a borrower. Whatever transpires in secrecy between them should never be divulged by the committee members. Whenever a credit committee member breaks the bond of confidence with borrowers, a serious situation may result. The only remedy in such a case would be to relieve the committee member of his duties.

#### Summary of the Credit Committee

The credit committee is often regarded as the motor of the credit union. If the committee embarks upon too conservative a policy, credit union funds will lie idle in banks of deposit or will be invested in securities sanctioned by state banking departments. Since it is the aim of the credit unions to make loans which will prove useful to the borrowing members, any defeating of that purpose by adopting too conservative a policy is not in keeping with good credit union practice.

On the other hand, the investment of funds in securities is only an incidental function to credit unions. I say incidental, because ideal credit unions invest in securities only those funds which are over





and above the amount needed for loans to members. The financing of American industry is not a major aim of credit unions. They realize that there is a wealth of other agencies ready to perform this job. In a credit union service to the members is paramount; whatever other economic function which may be performed is by and large supplementary.

### The Supervisory Committee

Some credit union laws call the committee which performs the functions of supervision the "supervisory committee", while others call it the "auditing committee". However, there is no distinction as regards its functions. In most states this committee is chosen by and from the members, the two exceptions being Massachusetts and Illinois, in which states the choice is made by and from the board of directors. It is always composed of three members, elected for a single year.

### The Functions of the Supervisory Committee

It is the job of this committee to supervise fully and to check constantly the activities of the credit union. It sees to it that the credit union performs its specific functions and abides by the rules under which the society is operating; it makes sure that there is an honest handling of and a proper accounting for funds used in the business.

The supervisory committee guards against the insolvency of the credit union and attempts to prevent dishonest management of funds. At least one of its members should be a bookkeeper, while the other two should be capable of understanding and checking the credit union accounting system. They should not take the treasurer's honesty for granted, but should analyze and audit his accounts with the utmost of care.

The treasurer should not regard the supervisory committee's audit as an affront to his personal integrity. In reality he should welcome such supervision. This auditing should take place at least quarterly and





should involve a detailed examination of the various accounts. If the committee gives its job conscientious attention, the result may be the virtual elimination of defalcations by credit union bonded officials. A supervisory committee which is ever on the alert can catch defalcations in the embryo stage, thereby saving the credit union from a serious loss.

The treasurer's monthly statement is countersigned by the supervisory committee. Merely signing it is not sufficient; the committee should examine it and familiarize itself with its details. The committee members should not sign the monthly statement until they have reconciled the cash on hand as set forth in the report and have examined the check book balances.

The supervisory committee is also given certain police powers. If the committee members discover that a difficulty exists, they have the power to do something about it. They can remove any officials whose acts are subject to real criticism, in which case it is mandatory that they call the members together within seven days. At this meeting the members can then uphold the suspension or remove it.





## CHAPTER VII

### CONCLUSIONS

One cannot attempt to measure the value of the credit union solely on the basis of its economic aspects, for many of its objectives are social as well as economic. I like to regard the credit union as a new form of religion, a religion whose value we are just beginning to appreciate. The only tenet which this new system of faith embraces has to do with one's being of service to his fellow man.

It is my contention, erroneous though it may seem, that we humans are not altruistic enough, that we are not sufficiently concerned with the welfare of our neighbors. The cooperative movement as a whole, and the credit union in particular, is attempting to show the world what may be accomplished by the adoption of a spirit of mutual beneficence.

"To find Raiffeisen" was considered the apex of credit union living to those men in this country who have fostered the development of cooperative credit on these shores. Desjardins, Filene, and John Sprunt Hill found him, and they drank in his humanitarianism. When we look closely at the motives which fired this kindly man to do something about the problem of usury in far off Germany, we perceive that they were tinged somewhat with a fervent zeal to aid humanity in its dilemma over the money lender.

To-day in our great nation we find the credit union really coming into its own. We see men banding together regularly in an effort to deal the loan shark a death blow. Their philosophy is an admirable one. They rationalize in this fashion: as individuals we have been unable to cope





with a foe who endangers our very existence; as a group we may be able to overpower him.

The cooperative movement in the United States has not been one which has been received with open arms by the public. When we analyze the situation in the field of farming, we find that the resistance to organizing on a cooperative basis has been greatest here. The American farmer has been a rugged individualist, thinking in terms of his own interests and refusing to become a part of any group movement, until he was forced to turn to cooperative activity during the depression in an effort to alleviate his plight. This was especially true in the years prior to the 1920's.

In like fashion, cooperative consumer credit experienced some resistance during its early existence in this country. The resistance which credit unions had to overcome, and the means through which this was accomplished are related in the following quotations:

"The resistance of American individualism and self-sufficiency to the cooperative movement has become proverbial. But the growth of credit unions is a striking exception to the rule. For some reason the American people seem to take to cooperative banking more readily than to cooperative selling, buying or manufacturing."(1)

"But the very strength of the cooperative way of doing business is a weakness when it comes to expansion. Democracy always moves more slowly than government by a small and powerful group - particularly when the small group has a large financial interest in moving fast and far. Had it not been for Mr. Filene's disinterested devotion - and his financial ability to make this devotion effective - it is possible that credit unions might scarcely have taken root in this country."(2)

Credit unions have now been in existence in this country for some twenty-nine years. The first twenty-five years of their existence were characterized by the obtaining of aid from outside sources. Men who were friendly to the movement donated funds to the cause. In this

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(1) Evans Clark, Financing the Consumer, p. 82.

(2) Ibid., p. 202.





respect the name of Edward A. Filene stands out; the Credit Union National Extension Bureau was financed largely through his generous contributions. The movement became self-supporting when the Credit Union National Association was formed late in 1934.

Credit union development in the United States is usually regarded as consisting of three stages. The first stage included the period from 1909 to 1921, during which growth was confined for the most part to Massachusetts, New York and North Carolina. The second stage of development occurred during the period from 1921 to 1934, and was characterized by the operation of the Credit Union National Extension Bureau, which promoted the national expansion of the movement. The third and final stage of development started late in 1934 and is still taking place. The most significant events in this last stage have been the formation of the Credit Union National Association and the organization of credit unions under Federal charter.

Credit unionism in this country has a right to be proud of its accomplishments during its twenty-nine years of existence. Many were the obstacles that it had to surmount, but its success is a testimonial to its right to become one of our permanent economic institutions.

We can do nothing but marvel at the success attained by credit unions here. The average credit union member is not a person with an extensive knowledge of economics. He also lacks schooling in the intricacies of banking. In spite of these deficiencies, credit unions are usually operated with a great degree of efficiency.

To say that credit unions up to the present have met with no mishaps would be ridiculous. We know that some of these societies have experienced great success, while others have proved to be colossal failures. There have been cases of dishonesty, of incompetence, and of misguided





zeal. Mistakes have been made, and in some instances they were very serious ones.

On the other hand, we should not attempt to estimate the value of credit unions solely on the basis of isolated cases of failure. For every case of mismanagement which we may point out there have been hundreds of cases of fruitful success. The number of defalcations have been surprisingly low. On the whole the quality of management has been more than satisfactory. Instances of failure and inefficiency in management were much more pronounced during the experimental stage of credit union development in this country. Since the formation of the Credit Union National Extension Bureau in 1921, efficient management has become much more noticeable.

The main weakness that I have found in credit unions is that some of them are formed when there is no apparent need for them. I discussed this matter with a man who travels throughout Southern Massachusetts helping new credit unions to organize. He related to me one experience that he had in a city which has a population of approximately 70,000. After he had concluded his address to a group in that city in regard to the manner of setting up a cooperative credit society, one brave person in the audience asked him whether he thought there was a need for such a credit union.

In a straightforward fashion the organizer immediately proceeded to show the group that there was no real reason for the establishment of a new credit union in that city. He brought out the fact that there were at least two or three credit unions there which the members of the group that he was addressing were eligible to join.

However, the frank manner in which the organizer answered the question asked him is rare. Many times groups convince themselves of the need for a credit union, when in reality no such need exists. The psychology behind their desire for a credit union is apparent - they feel that





it is fashionable to possess one; Plant X or Lodge Y has a credit union, and Plant X or Lodge Y is not going to possess anything which this particular group lacks. Some of these unnecessary credit unions have been in operation for a considerable period of time, and possess assets of only a few thousand dollars at the present time.

Some credit unions operating at the present time are not credit unions as we have defined them in Chapter I. These pseudo unions in reality are savings and loan associations. Most of their loans are real estate loans, and they concentrate on paying large dividends to members.

I do hope that the reader will not infer from my remarks above that I am attempting to belittle the credit union development in this country. To be truthful, I am a staunch supporter of credit unionism; I believe that its accomplishments and its rapid growth in such a short period of time are nothing short of phenomenal.

To my mind, the credit union is another great democratic institution which will fall only when democracy itself falls. The principles to which it adheres are admirable ones; in practice it has proved the salvation of thousands of Americans.

What is the future of the credit union movement in the United States? This question is a difficult one to answer, for it is dependent upon the status of economic conditions in the future. Who can forecast with accuracy the business conditions which will prevail twenty years from now? If a boom takes place in this country within the next ten years, credit union development may go far beyond its present boundaries.

I also believe that Federal credit unions are far from their full growth. They have made great strides during their brief existence and show promise of increasing both in size and in number. As I have already remarked, whether Federal credit unions will ever attain a size





greater than that of the state credit unions is a question for the future to decide.

Whatever the future may hold for credit unions, we are sure that the firm foundation on which they were built will serve them well in overcoming any obstacle they may meet. To Schulze-Delitzsch, Raiffeisen, Desjardins, and Filene we give thanks for doing their work so well and for making possible such a thing as cooperative credit.





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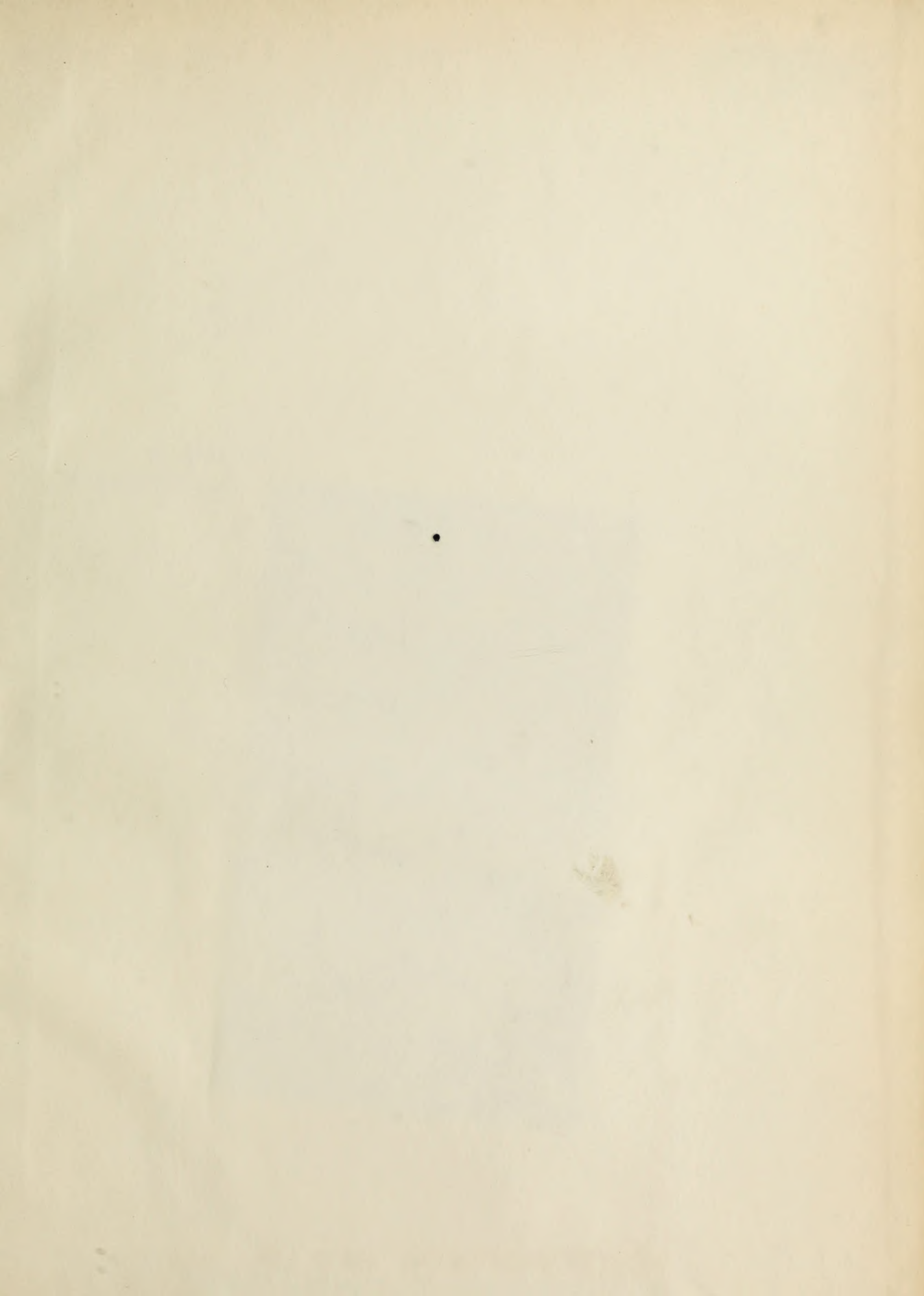
INTERVIEWS

Miss Agnes C. Gartland, Credit Union National Association, 5 Park Square, Boston, Massachusetts.

Mr. Charles Cosgrove, Ex-President of the Fall River Municipal Employees Credit Union, 205 Bank Street, Fall River, Massachusetts.







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